The MAGAZINE of WALL STREET

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Important Dividend Announcements

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THE PRESENT POSITION OF LIBERTY BONDS

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THE OUTLOOK

The Scarcity of Capital—Government Control of Money Market - The Technical Situation—The Railroad Contracts—Prospect for Industrials

THE upward progress of the market has been checked by scarcity of investment capital resulting from the tremendous absorption of funds by the Government and from an increasing number of new security issues at very attractive prices.

Capital is diverted in these directions as fast as it is created, so that there is little surplus left to flow into the market for securities already outstanding. The consequence is that prices of high grade investment securities are practically stationary. As affecting speculation, the situation makes itself felt in two ways: Scarcity of money for carrying securities, and a "weak technical condition" of the market on advances. It is worth while to discuss these two factors in more detail.

The Outlook for Money

THE estimate of Government expenditures for the current fiscal year, ending June 30, 1919, is $24,000,000,000. This may turn out to be an overestimate, since it may be impossible to find enough labor and materials on which to expend such a vast sum, but at present the only safe plan is to assume that the estimate is approximately correct.

It is proposed to raise one-third of this by taxation—although in our opinion this is too large a proportion—and the remaining two-thirds by sales of bonds. So far as the immediate effect on the supply of investment capital is concerned, there will be little difference between the two methods. Both will mean the diversion of our wealth into war expenditures.

The increase in wealth in the United States has been estimated at $12,000,000,000 a year. This may have increased somewhat recently under the pressure of war production and with the rise in all prices. On the other hand, several millions of soldiers are being withdrawn from productive work, which would tend to reduce our accumulation of wealth. Also, it will probably be impossible to draw all of this increase of wealth into war channels.

At best, therefore, Government expenditures as planned will call for about twice our ordinary increase of wealth. To meet them fully we should have to double our net savings —that is, produce more and consume less. To some extent we shall meet this demand. If we do not fully meet it, then one of two things (or both) must happen: Either we shall not be able to use $24,000,000,000 in war and other Government expenditures, or prices will rise so that the $24,000,000,000 will represent a smaller total product.

The effect of this situation on the money market is apparent at a glance. It means a constant demand for more goods and materials than we can produce; for more wealth than is growing; for more capital than is accumulating.

Government Control of Money Market

THAT would inevitably mean higher money rates but for one thing—Government control of the money market through the Federal Banks.

But how can the Government meet the situation? Manifestly it cannot do much to increase the accumulation of wealth. The only thing that will do that is more work. As much as practicable is being done to put idlers to work and to increase the product of those already working, but the net result of these efforts cannot possibly be enough to meet the increasing war requirements.

The only other way is by the expansion—or inflation, as you choose—of credits. Increased credit does not increase the production of goods and war supplies except as it serves to lubricate industry—to prevent delays, assist readjustments, stimulate greater efforts.

The Government is, therefore, as cautiously as the situation permits, swelling the volume of bank credits by the rediscounting of commercial paper and Government obligations at the Reserve Banks. In various ways it is indirectly dominating the credit situation —by the control exercised by the Federal Board; through the War Finance Corporation; by the combined action of the banks to limit the granting of credit to the less-essential industries; through the bankers' pool, which comes to the relief of the call and time money markets in New York when necessary; through the banking combination to assist public utility financing, if that plan should be carried out.

All of these efforts to alleviate the scarcity of capital by the creation of credit, tend to raise the general plane of commodity prices, and, therefore, to nullify themselves by increasing the cost of that very production for which the capital is to be expended. It is plain, therefore, that credit must be created cautiously, and in the smallest amounts which will serve the purpose of relieving immediate tension.

In spite of the Government's control of the money rate, the demand for money must frequently exceed the supply, unless Government creation of credits through rediscounting proceeds far more rapidly than would be wise. So far, the bankers' pool has come to the relief of the call and time money market in Wall Street whenever necessary to prevent the rate from exceeding 6% for mixed collateral or 6½% for all industrial collateral.

In the meantime, however, corporations of the highest credit standing are issuing short term notes to yield 7% to 7¾%, and even at those rates, the assistance of the War Finance Corporation is necessary in some cases.

Under such conditions it would be unwise and unpatriotic for the banks to encourage the use of borrowed money to create a higher plane of prices for stocks. And it is entirely safe to assume that they will not do so.

The Technical Situation

THESE same factors of scarcity of capital and of money rates frequently bumping against a maximum established by concerted banking control, have the effect of creating a weak technical condition of the market on any considerable advance in prices.

A weak technical condition may be described as one in which a considerable number of holders of stocks wish to sell, but fail to find buyers enough to take their stocks, especially on any advance in prices. This is sometimes termed an "overbought" market, but the term is not exactly descriptive in all cases, since a weak technical position may be quite as much the result of lack of demand as of an excess of supply.

That has been the case in recent markets. The quantity of stocks now being carried on margin is relatively small in comparison with 1916. There has, in fact, been very little increase in borrowing on collateral during the advance in prices which began last December. The weakness of the technical condition is due to the failure of demand to follow prices upward.

Those who bought at a lower level do not need to borrow more money in order to carry their stocks at higher prices; but new buyers at the advance would naturally borrow more in proportion to the prices paid, and the banks are quite properly reluctant to permit the expansion of their loans which this would involve.

This is, we believe, the fundamental explanation of the greater susceptibility of the market to unfavorable news which has been evident of late. It is difficult to maintain a higher plane of prices unless a solid foundation can be moved up behind them. That solid foundation must eventually be an adequate supply of capital for investment. It is entirely true than an active speculation, based on public sentiment, and a general belief that an advance is "due," may temporarily carry prices some distance above this foundation; but a price-structure of that kind is unstable and difficult to maintain.

The Railroad Contracts

THE differences between the railroad executives and the Government in regard to the contracts under which the Government is to operate the roads, are principally in connection with the troublesome problem of maintenance. In the proposed contract the amount of maintenance cost to be charged to the road as payable out of the "standard return" allowed by the Government is left entirely to the discretion of the Director General, with the right of appeal to the Interstate Commerce Commission only.

However, it is probable that in the final result the roads will be fairly treated. The great differences in the standards of maintenance of different roads in the past make the question of adjustment of this item under the new conditions a very difficult one. Somebody, apparently, must exercise a certain degree of discretion as to the division of future maintenance expenditures between the roads and the Government.

Industrials Weaker

GOVERNMENT control over industrial companies is only less complete than over the rails. The policy of price-fixing is being steadily extended; production of non-essentials is being more rigidly restricted, and Government orders are more and more monopolizing productive capacity.

Failure to advance fixed prices to correspond with the rise in costs of materials and labor is one important factor in the recent weakness of industrial stocks. The advance of the price of copper to 26 cents brought some encouragement to holders, but other advances have not followed.

The report of the Federal Trade Commission also created a very unfavorable impression, because of its sweeping implications of profiteering. Antagonism toward corporations at a time when their managers are working loyally toward the common end of winning the war is certainly to be deprecated. Internal disagreements should be shelved until our disagreement with the Germans is settled.

Course of Prices

THE bond market remains almost stationary, and the fluctuations of railroad stocks are slight. The industrials monopolize public interest. From a low point of 62.8 in December, 1917, the average of 25 industrial stocks rose to 85.8 in May, 1918. A sharp reaction to 76.3 followed, then a rally to 85.1 June 27. The failure of the market to climb over its May level was accepted by many investors as an indication of a probable downward swing.

While the movement of prices alone is not a sufficient basis for forming an opinion, it must not be forgotten that average prices constitute a sort of index into which is combined all the varied factors affecting the market, as viewed by the thousands of investors, each of whom contributes his mite toward price-making.

The Market Prospect

WE do not expect much change in bonds or railroad stocks at present, though they may be somewhat influenced by weakness in the industrials. For the latter, present indications are that the up trend which prevailed during several months past has now been reversed, and a downward movement of greater or less extent is to be expected. The most important factors contributing to this situation have been emphasized in preceding paragraphs.

July 15, 1918.

Our Point of View

On Vital Factors in Finance and Business

Justice Under War Conditions

IN time of war the rights of individuals and of corporations must be subordinated to the needs of the nation as a whole. In the face of danger to the liberties of all, personal and property rights must be secondary. The Government must do what it believes to be necessary.

But this very fact makes it all the more important that the Government should take particular pains, under these unusual conditions, to avoid injustice.

The Government has taken over the operation of the railroads as a war necessity. The roads are not only helpless before the war powers of the President and Congress, but more than that—it is the earnest desire of their officers and stockholders to do their part in every possible way toward the war burden which all must carry.

Under such conditions it would certainly offend the country's sense of fairness and justice to see the roads driven into a corner and forced to sign contracts which would fail to give their security holders that fair treatment which it was evidently the intention of the President and Congress should be given them.

* * *

Railroad Baiting as a Habit

NEVERTHELESS, incredible as it may seem, there is danger that exactly this situation may arise through the mistaken zeal of some members of the Interstate Commerce Commission and subordinates of Director-General McAdoo. The habit of railroad-baiting seems to have become so firmly fixed on these gentlemen that even the world-shaking war cannot break it up.

The really big men of the business world have immediately readjusted themselves to the new situation. The ability to do that is one of the marks of bigness. But busy as the President and Secretary McAdoo are, it seems that they must take a week off to convince subordinate departments that the country wants to treat the railroads justly, not to drive a hard bargain with them.

A number of roads have been compelled to "defer" their customary dividends, because of interminable delay in the signing of the contracts and doubts as to whether the contracts, when signed, would permit the continuance of dividends. It is an intolerable situation, and it is difficult for the average citizen to see any excuse for its long continuance.

* * *

What is a Profiteer?

ANOTHER instance of the survival of an antagonism which perhaps had some raison d'etre before the war but has now lost it, is apparent in the report of the Federal Trade Commission. The general impression derived from reading this report is that the men who are at the head of the great industries of the country are lacking in patriotism.

No unprejudiced observer believes this to be true. Doubtless some are more patriotic and some less so, and there have unquestionably been some instances where the ingrained habit of money-making has led to profiteering; but the instances where the big business men and enterprises of this country have taken an unpatriotic stand are few indeed.

The Trade Commission seems to have gone on the mistaken assumption that any company now making unusual profits should be classed as a profiteer. That assumption is radically wrong. To get maximum production for war purposes it is necessary that the less efficient producer should make some profit, and in that case the most efficient producer will make a larger profit. But the latter is not necessarily a profiteer.

* * *

Profiteering and a Shrinking Dollar

AN important point to be borne in mind in connection with this whole subject of profiteering is that we are in a period of rapid war inflation, with all prices rising except those fixed by the Government, and even those will doubtless have to be revised upward from time to time as has already been done with the price of copper. All values are apparently growing higher, because they are being measured with a shrinking yardstick—the dollar.

Under such conditions profits must naturally appear larger than usual. Rising prices mean larger profits, but when those profits are the result of a shrinking dollar they are illusory. And in most cases these increased profits have been reinvested in bigger plants and increased inventories at double the former prices. Technically, U. S. Steel earned nearly 39% on its common stock last year, but the greater part of that sum was represented by property or materials built or bought at very high prices. This is a very different thing from cash in hand—and even the cash will buy only half as much as formerly.

* * *

Profiteering and the Farmer

NOBODY accuses the farmers of profiteering, yet their net cash profits have probably risen more on the average than those of almost any other industry. This, of course, is the reason why the President has vetoed the price of $2.40 for wheat. From the point of view of equality and justice he is right in applying to the farmer the same treatment that has been applied to the steel manufacturer, the copper producer and the paper maker.

Yet the world needs every bushel of wheat that can be raised. A starving man would readily pay 40 cents a bushel more for wheat. Even a man living on 10% less food than he needs would willingly pay that additional 40 cents to bring his supply up to normal.

War Taxation and Cash Position of Industrials

Will Industrials Have Cash to Meet Taxation Plus Dividend Requirements?—Comparison of Cash Holdings of Leading Companies

By BENJAMIN GRAHAM

IN my recent article "Will War Taxation Affect Dividends?" which appeared in the June 22 issue of THE MAGAZINE OF WALL STREET, the conclusion was reached that increased taxation would not in general bring earnings below current dividends, but that nevertheless it might render reductions necessary through its effect upon the companies' cash position. The latter factor is the subject of the following discussion, which is thus a continuation of the original inquiry into the dividend prospects of the industrials.

No aspect of the present economic situation can be intelligently considered, unless it is understood at the outset that the past is entirely lost to us as a guide or criterion. Financially and commercially we live as in another world, where old values and old laws no longer obtain.

Less Comfortable Cash Position

Especially in connection with the present inquiry must this underlying principle be stressed; because while since 1914 the cash resources of our industrials have expanded enormously, the demands upon these resources have grown at an even more rapid rate. Hence the strange but vitally important conclusion—that although industrials have retained extraordinary sums out of their profits, and although the largest part of these surplus earnings has gone directly into working capital, nevertheless the cash position of most of these companies is much less comfortable than it was four years ago. The force of this statement can be realized only through a concrete example. As one of fifty possible illustrations we have transcribed (in Table I) the working capital position of American Steel Foundries at the end of 1913 and 1914—the best and worst years before the war boom started—and also as of December 31, 1917. The first striking fact is the tremendous expansion of every item except cash assets. (The latter term throughout this article will be taken to include call loans and marketable securities.) Steel Foundries' cash assets have grown moderately while everything else has multiplied three and fourfold. We note further that net current assets have increased by $5,170,000, or $30 per share—but that nevertheless the current liabilities bear a larger proportion to liquid assets than ever before. Of chief importance, finally, is the fact that while in 1914 cash assets alone were more than double all working liabilities, yet in 1917, after two wonderfully prosperous years, the company finds itself with cash assets less than one-quarter of its current liabilities.

TABLE I—DEVELOPMENT OF THE CURRENT ASSETS POSITION OF A TYPICAL INDUSTRIAL—AM. STEEL FOUNDRIES.

	Dec.31, 1913	Dec. 31, 1914	Dec. 31, 1917
Gross Business	$17,426,000	$11,125,000	$49,370,000
Cash Assets	1,357,000	1,859,000	2,017,000
Inventories	1,635,000	2,035,000	7,353,000
Acc'ts Receivable, etc.	3,157,000	1,694,000	8,835,000
Total Current Assets	6,149,000	5,588,000	18,205,000
Acc'ts Payable, etc.	1,014,000	876,000	2,723,000
Notes Payable	....	....	3,125,000
Accrued Taxes	....	....	2,462,000
Total Current Liabilities	1,014,000	876,000	8,310,000
Working Capital	5,135,000	4,722,000	9,895,000
Per Cent of Working Capital to Gross	29.5%	42.4%	20.0%

Working Capital Versus Cash

This illustration shows clearly that in these times an industrial's cash position and its working capital position are by no means one and the same thing. It has long been the custom to treat "net current assets" as practically the measure of control over ready money. This viewpoint has been substantially correct in the past, because inventories and accounts receivable were largely convertible into cash—if not by sale or collection, at any rate through bank accommodation. One would therefore have called Steel Foundries' financial condition stronger in 1913 than 1914, directly because working capital was about 10 per cent. larger. For although cash assets alone were somewhat less than in the previous year, they were still in excess of all current liabilities; the company owed nothing to the banks, and it was evident that money could easily have been borrowed if needed. But 1917 is a far different proposition from 1913. The company is obligated to the banks for large sums; the inventories and receivables show no signs of liquidation; and the plain fact is that the company's business, and hence its cash requirements, have grown much faster than its cash resources.

American Steel Foundries has not been singled out as a target for bearish criticism. On the contrary, the writer believes that its ultra-conservative capitalization structure and large accumulated as well as current profits make this stock exceptionally attractive from the investment standpoint. The above analysis was intended to show that even in the most prosperous industrials there are elements—growing out of this very prosperity—which make for cash stringency and may even threaten dividends. The tax liability appears here in its proper light—not as a burden which by its own weight alone can cripple the dividend power, but which super-added to the heavy demands of an expanding business may prove a kind of last straw or finishing blow.

It is perfectly evident, therefore, that surplus earnings do not necessarily mean surplus cash. The cash account and the income account have followed a separate and often contrary course. But, to repeat what needs constant repetition, it is the cash account that pays the dividends. In the past development and present condition of the cash account we must look for the clue to the dividend prospects of the industrials.

Table II contains what to the writer's knowledge is the only published effort to determine what part of the industrials' earnings have been actually available for dividends, in the form of net cash receipts. The figures represent the aggregate of over fifty companies—practically all the listed stocks for which complete data is obtainable. United States Steel has been omitted from this compilation, because—for reasons pointed out a little later—its exhibit has run counter to the general tendency, and through its enormous size it would, therefore, have nearly neutralized the combined influence of all the other enterprises. Observe in the table how each year a smaller proportion of the profits have been available in the form of cash. Note finally that had the war taxes been due on December 31, the disbursement of $166,000,000 in dividends would have meant a reduction of $65,000,000 in cash assets for the year. Of course in the six months intervening before tax payments in June the companies have been working strenuously to put their

TABLE II—NET CASH RECEIPTS COMPARED WITH EARNINGS.
52 Companies—Excluding U. S. Steel. (In Thousands.)

	1915	1916	1917 (Excluding Taxes)	1917 (Deducting Taxes)
Earned for Common Stock	$208,918	$382,065	$496,491	$381,133
Dividends Paid on Common	99,368	152,641	166,884	166,884
Cash Assets Increased	70,933	24,916	49,729	*65,629
Earnings Available in Cash	170,301	177,557	216,613	101,255
Inventories Increased	36,135	163,195	214,087	214,087
Per Cent. of Total Earnings Available in Cash	81.5%	46.4%	43.6%	26.5%

*Decrease.

cash account in better shape for the ordeal.

Undistributed Profits?

But where have the large undistributed profits gone if not into the cash account? In plant extensions, slightly; in accounts receivable, largely; but in inventories most of all. Table II shows clearly how most of the missing earnings are accounted for by the yearly growth of inventories. The total figures for 1914-18 given in the graph indicate that stocks on hand have almost exactly doubled since the beginning of the war. U. S. Steel, however, has held its increase down to only 40 per cent., wherein lies the secret of its exceptionally strong cash position. Obviously the growth of inventories is due only slightly to larger quantities, and almost entirely to higher prices.

Before considering what light this exhibit sheds on future prospects it might be well to submit our data in more specific form, so that the individual concerns can be considered on their merits. Table III continues the corresponding detailed tabulation in the previous article, by comparing the *net cash receipts* in 1917 of each of the 74 listed companies with their present dividend and 1917 tax requirements. Moreover, since dividends will depend not only upon the year's additions to cash, but also on the general cash and current assets position, the table is completed with an analysis of each company's working capital.

Grouped in Three Classes

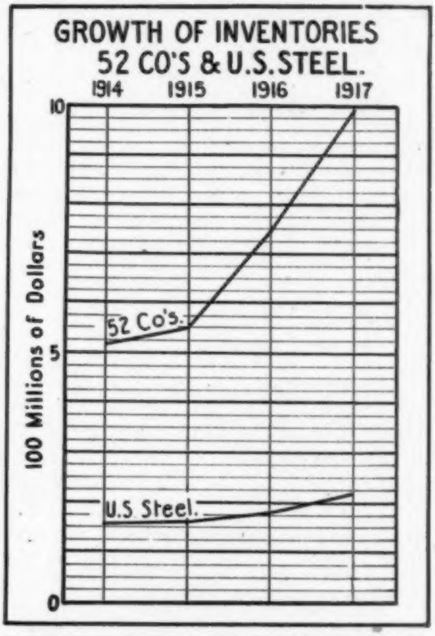
We find that the industrials group themselves into three classes with reference to their dividend possibilities.

Class I includes concerns whose net cash receipts in 1917 exceeded present dividends and 1917 tax requirements. These should in general find no difficulty in maintaining dividends unless earnings fall off considerably.

Class II embraces those whose cash receipts were less than required for dividends and taxes, but which are nevertheless in strong financial condition. The latter fact had necessarily to be determined by an arbitrary standard—which we have fixed as the possession of cash assets about equal to, or exceeding, one-half of total current liabilities. Even if cash receipts should be insufficient for dividends, companies in this class might continue the present rate by drawing on their treasury funds.

Class III contains all other companies. Being relatively short of cash and with receipts less than requirements, these are naturally in the most precarious position as regards the continuation of the present rate.

In examining this classification by groups of industries, one is particularly impressed with the strong showing of the coppers. Of eleven companies represented all but one are in Class I—i. e., are receiving more cash than they need. Their position is even more favorable than indicated because a large part of their inventories consists of immediately salable copper—a much more liquid asset than the average manufacturer's stock of goods. The steels are equally divided between the first two classes, and hence are in sound financial shape. On the other hand the rubber companies, chain stores and mail order houses, the motors (except General Motors), and a varied list of other concerns fall into Class III. Their dividends are likely to be particularly susceptible to unfavorable developments.



Outside of ordinary business receipts,

TABLE III—CASH POSITION OF THE INDUSTRIALS COMPARED WITH DIVIDEND AND TAX REQUIREMENTS (in Thousands)

	Name of Company.	A Present Dividend and 1917 Tax Requirements.	B Net Cash Receipts Available in 1917.	C Cash Assets Dec. 31, 1917.	D Inventories Dec. 31, 1917.	E Total Current Assets Dec. 31, 1917.	F Total Current Liabilities Dec. 31, 1917.
III	Ajax Rubber	$1,347	$840	$405	$5,425	$8,065	$4,052
II	Am. Beet Sugar.....	2,527	82	3,717	4,786	10,260	3,031
II	Am. International ..	2,639	742	2,153	2,223	7,588	2,789
II	Am. Smelt. & Ref...	7,510	2,571	19,362	43,817	82,098	27,695
III	Am. Steel Foundries.	3,491	1,280	825	7,353	16,787	5,848
I	Am. Woolen	4,000	8,173	11,255	42,829	78,688	44,555
III	Associated Oil	2,360	*2,020	1,673	3,610	9,328	4,883
I	Atlant. Gulf & W.I.	7,196	11,110	15,067	240	23,793	5,441
III	Booth Fisheries	1,125	733	1,518	5,479	11,682	8,531
III	Calif. Packing	2,656	514	1,905	5,927	14,889	8,079
I	Calumet & Arizona.	6,823	7,399	2,976	4,036	10,255	2,190
III	Central Leather	7,985	†50	4,381	63,476	83,853	9,048
I	Cerro de Pasco.....	6,188	est.9,000	5,149	5,559	12,618	3,239
I	Chino Copper	4,712	8,859	3,517	7,106	10,963	2,133
I	Cluett Peabody	1,503	1,924	1,125	8,278	12,933	4,988
I	Consolidation Coal..	4,653	6,988	6,623	2,413	15,698	5,445
III	Continental Can.....	1,660	336	915	6,278	9,226	4,284
II	Diamond Match	2,460	†23	1,136	9,202	12,379	1,765
II	Distillers	3,697	1,061	3,949	6,240	15,276	3,404
II	Eastman Kodak	9,861	7,781	17,667	17,774	41,602	8,109
III	Elec. Storage Battery	1,100	695	365	4,929	7,932	1,444
II	Elkhorn Coal	588	264	602	427	2,268	403
II	General Chemical ..	4,239	2,467	2,275	9,170	16,342	3,921
I	General Electric....	20,969	20,279	21,191	81,851	154,549	26,384
II	General Motors	16,851	5,619	20,121	46,559	81,130	22,660
III	Goodrich	4,650	3,459	2,574	50,736	63,499	33,650
II	Gulf States Steel....	2,125	803	1,810	2,289	5,449	1,435
II	Ingersoll Rand	6,721	1,814	3,074	11,824	21,310	6,060
I	Inspiration	10,641	§16,769	§12,496	1,932	19,161	4,678
I	Int. Harvester, N.J.	10,680	16,335	44,642	44,019	107,226	20,958
II	International Nickel	10,013	4,456	6,744	6,825	17,638	7,630
II	Island Creek Coal..	2,088	1,261	1,461	652	3,008	1,559
III	Kelly-Springfield ...	1,215	574	773	3,760	6,605	1,629
I	Kennecott	11,732	14,182	2,498	5,384	11,281	10,358
III	Kresge	1,000	641	633	5,198	6,278	2,168
II	Kress	850	655	1,890	3,374	5,943	1,452
II	Lackawanna Steel...	13,901	7,072	8,096	16,965	36,681	16,601
II	P. Lorillard	3,828	†9	2,027	21,854	32,314	3,635
II	Manhattan Elec. Sup.	248	†225	358	1,545	2,587	534
I	Manhattan Shirt	375	604	611	2,644	4,130	1,797
I	May Dept. Stores ...	1,600	1,776	2,156	6,652	12,398	4,235
I	Miami Copper	3,705	8,404	3,492	2,370	6,241	*1,905
I	Midvale Steel	37,732	37,607	46,423	36,758	109,792	37,594
II	National Acme	3,000	est. 2,350	1,302	5,563	9,514	1,971
II	National Biscuit	2,746	2,368	3,618	10,467	19,026	2,319
III	Nat'l Cloak & Suit..	1,124	603	1,630	5,757	7,837	3,728
II	National Lead	1,733	692	942	8,223	14,739	1,158
I	Nevada Copper	6,896	11,238	5,931	8,575	16,826	2,533
III	Old Dominion	1,492	1,121	507	2,776	3,389	2,364
I	Pacific Mail	1,590	2,361	1,662	75	5,139	2,196
III	Pierce Arrow	2,412	989	1,828	14,838	20,418	8,338
II	Pond Creek Coal....	1,018	743	962	311	1,625	841
II	Railway Steel Spring	4,175	2,053	4,411	5,113	13,601	4,420
I	Ray Consol. Copper.	6,132	9,322	2,926	7,800	12,936	1,801
I	Republic Iron & St'l	10,227	10,743	18,728	13,476	39,091	13,145
III	Sears-Roebuck	9,977	7,800	5,789	36,873	52,792	32,998
I	Shattuck-Arizona ...	539	1,785	1,981	883	2,870	661
II	Sloss-Sheffield	925	499	1,961	1,662	3,613	1,215
III	Stewart-Warner	940	707	208	3,062	4,538	1,120
III	Studebaker	1,760	1,037	3,376	21,322	34,024	10,847
I	Superior Steel	1,291	1,484	2,558	1,043	4,273	1,653
II	Tidewater Oil	6,502	5,288	947	5,292	8,588	1,073
II	Transue & Williams.	860	233	1,677	723	2,863	613

I	Underwood Typewtr	1,445	2,243	3,012	3,910	10,712	2,822
II	Un. Bag & Paper...	1,556	947	443	3,117	4,417	901
III	United Alloy Steel...	3,650	77	1,164	6,572	11,724	4,561
III	United Cigar Stores.	2,723	1,391	1,982	10,021	13,272	5,684
III	United Drug	1,095	528	1,132	10,593	14,789	4,745
III	U. S. Ind. Alcohol....	7,154	5,648	3,070	4,312	11,045	8,816
III	U. S. Smelt. & Ref..	2,447	†1,708	1,641	12,884	17,493	8,788
I	U. S. Steel..........	319,876	328,262	466,369	223,668	799,997	340,352
I	Utah Copper	20,626	28,584	16,361	17,747	38,340	8,054
III	Westghse El. & Mfg.	7,457	1,753	8,919	60,549	98,710	38,313
III	White Motor	2,310	116	824	9,638	15,591	2,587
	Total	$686,922	$648,099	$859,491	$1,136,613	$2,535,535	$892,821
	Total (exeldg U. S. S't.)	367,046	319,837	393,122	912,945	1,735,538	552,469

†Decrease. §Copper included by Co. in Cash Assets. *Tax Reserve added.

cash can be increased from three sources—the public, the banks and the Government. The sale of securities is open to only the strongest enterprises, and at almost prohibitive rates of interest. Yet some concerns—such as the Armours—find it more feasible to borrow from the public than from the banks, their indebtedness to institutions having reached so unwieldy a total. If our banking resources are not really strained it is because the Federal Reserve Act has so enormously enlarged our lending power. The huge lines of credit already extended to most industrials have bred a cautious spirit in the banks; and increases—although legitimate and necessary—may be difficult to obtain. It is significant to recall the warning of President Work of the Goodrich Company, that it might be better to do less business rather than borrow more money.

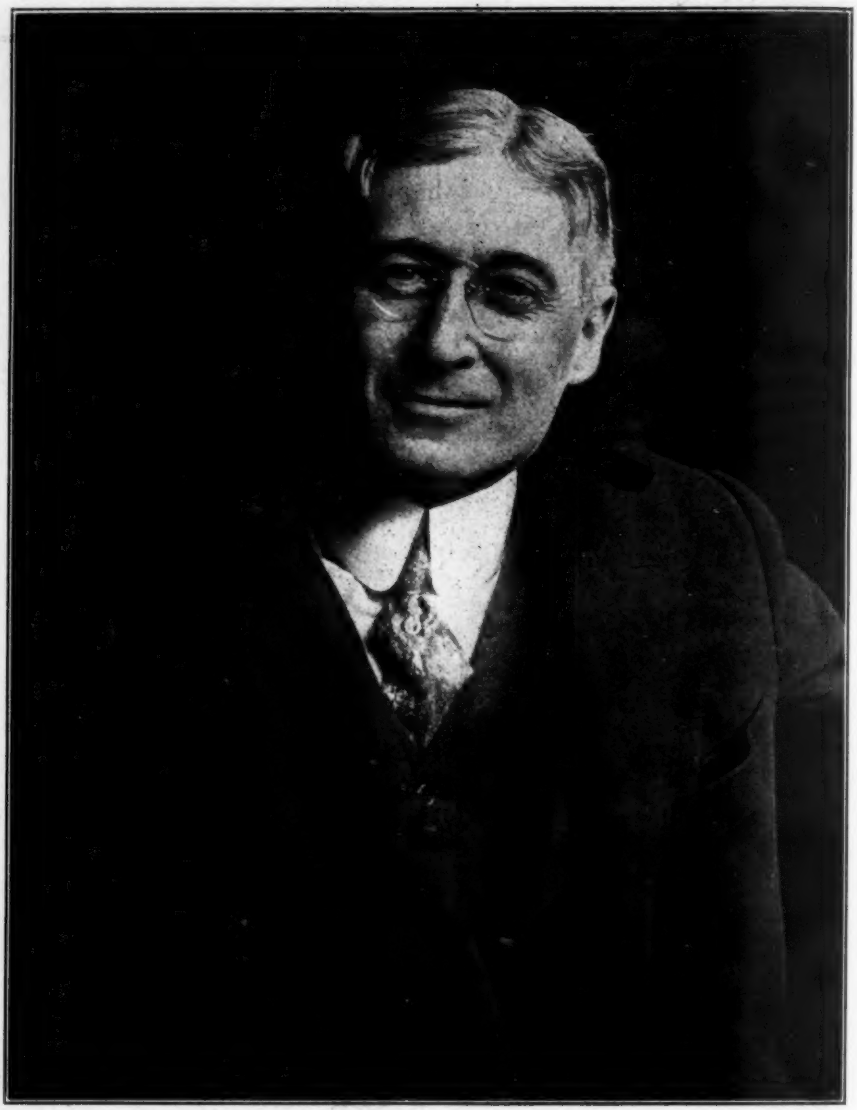
Possibilities of Federal Aid

There is left the Government as a last resource. Either by direct advances or indirectly through the War Finance Corporation, Washington can make matters easier for the nation's industries. Advances already appear in various balance sheets, and it is likely that the practice will steadily grow more general. The War Finance Corporation has thus far confined its activities to the aid of public utilities, and it is too early to determine how well it will discharge its primary function of meeting the current and temporary needs of industry.

It is probably too much to hope that assistance from these quarters will be sufficient to carry all the companies unscathed through another year of feverish activity and increasing financial strain. Signs are not wanting in the numerous dividend reductions already announced that the advisability of "conserving cash" is impressing itself upon many directorates. The writer foresees an era of scrip dividends—either in stock, as paid by Cosden Company, or convertible notes, as in the case of American Tobacco or Maxwell Motors.

The general dividend situation must therefore be regarded as highly uncertain. But it is important to bear in mind that a single disbursement—whether marking an increase or a decrease—does not establish the value of a stock. A scrip dividend or a reduced rate may signify better business rather than worse. Each case must be judged on its merits. If the earnings are going into salable inventories (covered by unfilled orders) and well protected accounts receivable, a relatively low dividend return may be justified. This is evidently true of Republic Iron & Steel. Here the investor feels that the large equities accumulating are of more importance than the current rate of disbursement.

It has already been pointed out that increased war taxes will exert their influence not as a single factor but as a new burden superposed upon an already difficult cash situation. The future will depend largely upon the degree of assistance extended by the Government through its various agencies. Some dividends will certainly suffer—the most vulnerable cases being presented by the companies grouped in Class III by our analysis. Considering the high rate of dividend return now prevalent, reductions dictated by caution may not seriously impair the value of a security. If the margin above taxes is large and the surplus earnings devoted to safe and profitable uses, the investor might welcome a resultant decline in market quotations as affording the opportunity for attractive purchases.



MR. BERNARD M. BARUCH

Having showed Wall Street that he knows how to make money he is now showing Washington that he knows how to spend it. This year he will supervise the expenditure of upwards of $10,000,000,000. He didn't like the word "but" which Lloyd George used frequently in his famous reply to Bethmann-Hollweg's peace offer, and capitalized that dislike to the extent of $500,000 in profits on the short side of the market. As Chairman of the War Industries Board he occupies one of the most important positions in the country today. It is said that he is through with Wall Street forever.

B. M. Baruch—Wall Street Graduate

His Present Big Job as the "Eye of Industry"—Began as a Broker's Clerk—How and Why He Has Climbed the Ladder of Fame and Fortune

Little Sketches of Big Men—No. 10

By BARNARD POWERS

WHEN President Wilson appointed Mr. Bernard M. Baruch as chairman of the War Industries Board, the general public asked: "Who is Baruch?" Wall Street inquired, "Not Baruch the speculator?" and Mr. Baruch's intimates remarked, "Well, here's his big chance. Now we shall see what we shall see."

In his pronouncement, President Wilson defined the duties of Mr. Baruch's office in the following terms:

"To act as a general eye of all supply departments in the field of industry."

Immediately the Washington funnyboys christened the holder of the new office as "General 'I.' B. M. Baruch," and the flamboyant space fillers dubbed him "Dictator of Industry." It is a fine mouth-filling title, but it lacks accuracy. Mr. Baruch couldn't be a dictator if he wished.

Can you catch more flies with vinegar than molasses? It is a hard question to answer. The elder Morgan evidently thought so, and there is nothing in the results he achieved to disprove his theory. E. H. Harriman was also a non-believer in saccharine solutions, and one must admit that his bag of brachycerous insects was considerable. On the other hand, the greatest fly catcher of them all, John D. Rockefeller, is a living exponent of the theory that the silken glove reaches farther and avails more than the mailed fist. Mr. Baruch belongs to the Rockefeller school. He is a great "get together" man, an organizer, co-ordinator and pacifier. Where one has to deal with the shifting sands of politics I think his method is the best.

Made a Fortune in the "Street"

Mr. Baruch's friends refer to him as an ex-Wall Street speculator, while his enemies call him an ex-Wall Street gambler. Mr. Baruch made a large fortune speculating in Wall Street, but I have yet to see the gambler who made a fortune in the Street—and kept it. The business of trading in stocks is one of the most difficult in the world. Most persons think it is merely a matter of guessing or following "tips" and that is why most persons lose their money.

Your successful speculator must possess soundness of judgment, foresight, discrimination, courage, infinite patience when patience is required and the capability of quick and vigorous action when such action is required. He must know how to attack like a shock-battalion at times and to scuttle to safety like a crab at other times. He must be an unusual combination of temerity and caution and must, above all, be able to do that most difficult of all things—instantly recognize when he is wrong and immediately reverse his line of action.

The mental qualities for successful speculation may be innate, but one only learns to use them successfully through long and bitter experience. Yet because the public sees no essential difference between speculation and gambling it will continue to use the two words interchangeably. Even so astute a writer as Richard Washburn Childs remarked that Mr. Baruch had made his money by trading on "hunches" and that he believes in hunches to this day. Doubtless every successful man harbors some superstitious belief, as Napoleon did in his "star," but it is as easy to wring a fortune in speculation through playing hunches, as it is to win a battle by flipping a coin.

Show me the man who can consistently make money at the difficult and hazardous game of speculation and I will show you

a man who has mental qualifications which not one in ten thousand possess.

A "But" That Was Worth $500,000

A single example of what the world at large calls "luck," but which the intelligent recognize as foresight amounting almost to clairvoyance, was brought out in connection with Mr. Baruch during the famous Congressional "Leak" investigation. It will be recalled that shortly before President Wilson made his reply to the Bethmann-Hollweg peace offer, there was a sharp break in the market which was attributed to certain individuals in the Street obtaining advance information of the President's speech. Mr. Baruch was known to be a heavy short seller, but when examined by the Rules Committee explained that he had obtained his clue to the probable action of the market from the word "but" which preluded Lloyd George's remarks to the effect that the Entente were not slamming the doors of peace in Germany's face. Mr. Baruch, like thousands of others, read the Lloyd George speech on the ticker in his office. He said in regard to his operations on the short side of the market, which netted him approximately half a million dollars:

"Lloyd George's speech was notice that the door was not closed. Seeing this I sold the market short on Tuesday before the speech was made and during the speech particularly when he said 'but.' "

Born in the South

Bernard M. Baruch was born on August 19, 1870, at Camden, South Carolina, which makes him 48 years old. He is the son of Simon and Isabel (Wolfe) Baruch. His father is a Jew of Spanish lineage, who came to this country from Polish Prussia when he was thirteen years old, gained distinction as a surgeon and was wounded in the Civil War. His mother is the daughter of a highly regarded Southern family.

Two decades ago Mr. Baruch was a clerk in a broker's office. He had started his business career after receiving the degree of Bachelor of Arts from the College of the City of New York, as a clerk in a glassware business. As mental relaxation he studied law and medicine. Evidently Blackstone proved unthrilling, for we next hear of him in the brokerage office of A. A. Housman & Co., having exchanged his Blackstone for a Poor's Manual. A member of the firm once casually remarked that one could never learn to trade by reading books, but the young man nevertheless pursued his studies and laid the foundation which in later years enabled him to describe himself as a "speculator working on hard facts."

It was not very long before he was trading and trading successfully in stocks and had left far behind those with whom he had started.

His First "Killing"

The following account of how Baruch made his first "big money," and which has not before appeared in print, was told to the writer by a member of the Guggenheim organization.

At the time the American Smelting & Refining Company was being formed there was a certain property far out west which the Smelting "Trust" was exceedingly anxious to acquire. The corralling of this property was a task requiring great diplomacy and skill, for if it became known that the Guggenheims were the prospective purchasers, its price would have advanced 100% over night. Mr. Baruch was entrusted with the mission of buying up the property on the best possible basis. He succeeded in obtaining it at a figure far below the limit given him for its purchase.

When he returned to New York, Mr. Daniel Guggenheim, president of the American Smelting & Refining Company, complimented him upon his good work, and then said:

"And now, Mr. Baruch, let us have your ideas as to your compensation."

"I don't want any money," Mr. Baruch replied, carefully picking his words, "if you will only permit me to have free hand in the market in Smelters for ninety days, that is, if you will agree not to unload any stock on me during that time, I shall consider myself amply repaid."

The bargain was struck and shortly thereafter Smelters began to soar upwards. It kept on climbing and climbing. At the end of sixty days Mr. Guggenheim sent for Mr. Baruch.

"How much have you made so far?" he inquired.

"About two millions," modestly replied Baruch.

"That's enough," said Mr. "Dan." "You're satisfied aren't you?"

"I guess I am," replied Mr. Baruch.

When Baruch sold his seat and resigned as a governor of the Stock Exchange and left for Washington to give his services to the Government, he was rated as worth between $10,000,000 and $20,000,000. During the time that he had taken to acquire that fortune no one had ever raised a voice in criticism of his integrity or character.

Shortly after he had taken up Government work in the fall of 1916 he was informed that his share of the profits of an underwriting in which he had been allotted a participation, amounted to some hundreds of thousands of dollars. He returned the money with the statement that as a member of the Advisory Council of National Defense he no longer was in a position to accept such profits.

Quiet Spoken in Manner

Mr. Baruch affects none of the sternness and iron-jawedness of manner of the Morgan school or that leonine expression which one writer described as seeming to have been put on each morning after shaving. His eyes are keen without being sharp and his mouth firm without being hard. He is more than six feet tall and his dark hair, streaked with gray, gives him the appearance of being an old young man or a young old man. He is gentle spoken like a gentleman and his manner is easy and reassuring. He is approachable and likable and his ability to win the good-will and inspire the confidence of others has been an important factor in his upward march.

A reporter on a financial publication was assigned to ask Mr. Baruch about his interest in a certain bond which has displayed unusual activity. Ordinarily one might as well bid the tide to stay its flood as to expect the average financier to tell the facts about his market operations. But Mr. Baruch replied without a second's pause:

"Why, yes; I bought about a million dollars' worth today. I think they are worth more and should go higher."

They were and did.

A Generalissimo of Business

Mr. Baruch is a great synchronizer. When he went to Washington the country watched him with doubt in its mind. Could the leopard change its spots and the Wall Street operator become a business administrator? Would the most spectacular trader since the days of J. R. Keene merely regard Washington as his front yard and the financial district his back yard?

Smiting the Producer

From the outset he made good. He induced the copper producers to reduce their price from 30c. to 18⅝c. a lb. and sell the Government 45,000,000 lbs. at that figure. Then he cut the price of steel in twain to $58 a ton. There was then no doubt but that he was working for the U. S. A. and not Wall Street.

He went to Washington as a member of the Advisory Committee of the Council of National Defense and was acting advisory head of the Raw Materials Division. When the present War Industries Board was formed he was the logical choice for its chairmanship. His work consists in purchasing for account of the Allies, but not for the United States. He is the connecting link between the Food Administration, the Fuel Administration, the Railroad Administration, the Federal Trade Commission and the War Trade Board. He has full authority, but not to fix prices for Government purchases. That is done by the price fixing committee of the War Industries Board. His is the important task of determining "priorities" and his the duty of acting as umpire when there is a conflict between the various boards and commissions. As the supervisor of the purchases of food munitions and supplies he will have jurisdiction over the expenditure of upwards of $10,000,000,000 this year. In short, he will act as "general eye of all supply departments in the field of industry."

Through with Wall Street

Mr. Baruch has graduated from Wall Street to a position of national power which has been held by few men. It is said that he is through with Wall Street forever, and that when the war is over he will take up administrative work in keeping with the training he is receiving and the ability he is displaying. Perhaps it will be as the head of some large banking or industrial institution. In any event, if report be correct, he has inclined his finely attuned ear for the last time to the song of the ticker.

MONEY--BANKING--BUSINESS

Federal Reserve System and American Business

Article IV—Future Development of the System—Elimination of Panics—Commercial Paper—International Relations—The Matter of Gold Reserves

By EUGENE E. AGGER

Associate Professor of Economics, Columbia University, Author of "Organized Banking," "The Budget in the American Commonwealth," Etc.

IN these dark days many an eye is turned anxiously toward the future. What are the conditions going to be after the war? of what we had supposed as characteristic of American business life has been scrapped or thrown into the melting pot. The Federal Reserve System was born into a world of stress. Its history thus far has been profoundly influenced by this stress. What will be its history and its influence in the future? Nobody can foretell. All that can be hoped for, all that can be dared, in an article of this kind, is on the bases of achievements already gained and of influences already disclosed, to point out a few probable lines of development.

Recognizing this limitation, the method of procedure is laid out by the discussion in the previous articles. As has been seen, most of the important principles dealing with the banking system as a whole, concern reserves on the one hand and the other assets on the other. The amount, the character and the method of handling these elements take in most of the important questions.

The Reserve Position

The strengthening of the control of reserves by the Federal Reserve System is indispensable to its strength and influence in the future. There is reason to suppose that such strengthening may be expected to an increasing degree. Every day the war lasts throws a heavier strain on our banking resources and increases correspondingly the responsibilities of the reserve system. But apart from war demands, those demands that are bound to come in the *post-bellum* period will be of such volume and intensity that every effort should be made to get the utmost out of our possibilities. No unbiased student can look at the problem squarely and escape the conclusion that all our banking resources should be brought into the Federal Reserve System. This will mean further unity with all the benefits implied in such unity. In banking today more than in any other field it can be said that "in unity there is strength."

Panics Eliminated

The unification of the banking system warrants the conclusion that serious money panics like that of 1907 need no longer be feared. Bank credit in both of its forms is today elastic—at least from the point of view of expansibility. If any bank is unable to meet the needs of its customers the fault must be looked for at home. The danger in the immediate future is that of inflation. It is sometimes hard for people to see that banks by extending credit do not actually create capital. People employ bank credit to obtain goods, tools, etc., but the mere extension of the credit does not multiply the goods. When credit outruns the available goods, all that happens is a boosting of prices. Hence inflated credit and inflated prices always go hand in hand.

In connection with inflation there is the danger that the commercial credit machinery may be used for long-time investment purposes. The passage of the War Finance Corporation bill emphasized this danger. What are essentially investment securities may be made the basis of the issue of Federal Reserve notes. While the problem of financing essential war industries is of

course important, making it possible to use the commercial credit machinery for the purpose is of doubtful wisdom. It is now simply a question of how the machinery will be run. With the present Reserve Board in control one is justified in hoping that the necessary caution will be exercised.

Tendency Toward Uniformity and Stability

The possibility of easy flow of funds from center to center points the way toward greater uniformity and stability of discount and loan rates. The Reserve Board has announced it as its policy to keep the reserves in the several districts on an approximately uniform percentage basis. This means that the reserves in the system are regarded as a unit, and therefore that discount and loan rates will tend also to be handled as a unit. Not only will there be uniformity as between different places, but also because of the bigger and wider basis of operations, steadier rates from season to season throughout the whole country. Rates must inevitably tend to the lowest level that the whole banking situation warrants.

Dr. H. Parker Willis, who played an important part in drafting the Federal Reserve Act, and who recently resigned as Secretary of the Federal Reserve Board

Commercial Paper

Here the question of the commercial paper situation intrudes itself. The free flow of funds requires that banks have on hand sufficient supplies of the kind of assets that can be freely rediscounted or offered for sale in an open market. Here is where the aid of the business man is indispensable. Banks must buy such assets in the first place, and they can do so only if their clients supply them. It is up to the American business man to study carefully the commercial paper question, and having arrived at sound conclusions, he must be willing to readapt his methods to broader requirements. He is the beneficiary of sound and broad-minded banking development.

Clearings and Collections

As already noted, the achievements in this field are limited because so many banks remain outside of the reserve system. Yet few things are more important to American business than an efficient and economical system of check clearances or "exchange." The ideal is, of course, par exchange everywhere. That ideal can hardly be completely realized because some cost is always entailed in handling and remitting items. The costs must be borne by the public, but through proper organization and cooperation these costs can be reduced to a minimum. The Reserve Board is doing its best to devise the needed machinery. Business men can help by insisting that in their own dealings with banks the machinery be utilized.

International Relations

It is in the field of international trade that American business may look for great assistance from the Federal Reserve System. Through widely distributed banking connections and through intelligent service in looking up market and credit conditions, banks can do much to promote foreign trade. The German trade in South America and the Orient could not have been built up without the assistance of the large German banks. The war has given us a great opportunity in the foreign field. Some of our banks have begun to grasp it. The reserve banks, preoccupied with the home demands have not done so much as some ex-

pected, and Senator Owen has introduced a bill to establish a separate "Federal Reserve Foreign Bank." Whether such a bank is needed or not is debatable, but adequate banking connections of some kind are, of course, essential. Here, too, however, much depends upon the business man himself. He has to be willing to meet the needs of the foreigner from the point of view of goods wanted, credit terms extended, etc. The banker can assist in financing a sale or a purchase of goods, but he cannot make the goods or assume responsibility for them.

When normal conditions are restored, there is every reason to suppose that intelligent effort will be made to protect the American reserve position in the international market. The success of this effort depends upon the material and moral influence of the reserve system in the control of credit at home and upon the full employment of the powers granted to the reserve banks to operate in the foreign exchange markets. For at least some years to come the reserve system ought to be the controlling factor in the money market at home. It is the controlling factor now. The question is one of the proportionate concentration of banking resources in its hands and of the moral force of its leadership. Both of these aspects are favorable at the moment, but how far the patriotic motive is now involved in them, and to what extent this motive may be supplanted by intelligent cooperation after the war, it is difficult to say.

Summing up the whole situation, however, it may justly be claimed that never before, insofar as the banking system has anything to do with it, has the prospect of American business development been so satisfying. The End.

Important Financial Forthcoming Events

July 23
American Hide & Leather quarterly earnings.

July 24
Norfolk & Western dividend meeting.
Pennsylvania dividend meeting.
Pressed Steel Car dividend meeting.

July 25
Consolidated Gas dividend meeting
Lackawanna Steel dividend meeting

July 29
Baltimore & Ohio $8,000,000 notes mature.

July 30
United States Steel dividend meeting and quarterly earnings.

July 31
Illinois Central dividend meeting.
Wilson & Co., special reorganization meeting.

Aug. 1
American Steel Foundry quarterly earnings.
Atchison, Topeka & Santa Fe special meeting.
Cotton crop report by government.
Government 3% bonds, $63,945,000 mature.
Meat supply of the United States put under government control.
Miami Copper semi-annual report.

Aug. 6
American Locomotive dividend meeting.
Studebaker dividend meeting.

Aug. 7
American Smelting & Refining dividend meeting.

Aug. 8
Union Pacific dividend meeting.

Aug. 9
General Electric dividend meeting.

Aug. 12
Canadian Pacific dividend meeting.

Aug. 13
Southern Pacific dividend meeting.

Aug. 15
Expiration of 26c. copper price agreement.
Liberty Loan (Third) payment due.
Utah Copper quarterly earnings.

Aug. 20
Bethlehem Steel dividend meeting.

Aug. 21
Republic Iron & Steel dividend meeting.

Aug. 23
Atlantic, Gulf & West Indies dividend meeting.
Railway Steel Springs dividend meeting.

Aug. 31
Capital stock tax returns must be filed.

Sept. 1
American Can dividend meeting.
Chino Copper dividend meeting.
United Kingdom Government $250,000,000 2-year 5 per cent. notes mature.

Sept. 4
Lehigh Valley special meeting.

Oct. 1
Baltimore & Ohio $10,500,000 notes mature.

Nov. 9
Last day for converting previous issues of Liberty Loan.

Leading Opinions

About Financial, Investment, Banking and Business Conditions

"Plan to Capture World's Trade"—E. N. Hurley

Advising manufacturers and business men to begin at once their plans for capturing the world's commerce after the war by fully using the vessels now being built for the government, Edward N. Hurley, of the United States Shipping Board, addressing the Illinois Manufacturers' Association at Chicago, declared that preparation should begin at once. Success in employing the merchant fleet, he said, rested squarely upon manufacturing efficiency.

The business man must learn to regard the whole world as his market, said Mr. Hurley, and, he declared, the American banker must supply the funds for carrying on the commerce of the United States.

Mr. Hurley declared the American merchant marine at the end of the war would be adequate to take care of the entire world's commerce, and "that we must look to the manufacturers to find work for these ships after the war is over.

"Manufacturers are, in many cases, running the shipyards. And back in the steel mills, machine shops and other industrial plants of the country, manufacturers are making ship material, ship parts and ship fittings. They are now building marine engines and boilers in Corn Belt plants, far from even a river port. Our experts in the designing, planning and contracting divisions have placed orders for ship parts with factories everywhere, utilizing the equipment, labor, skill and experience of manufacturers in lines remote from ship building, and they are making for us all sorts of things required in the fitting of ships—anchors, blocks, life-boats, ship's bells, forgings, tubing, valves, lighting equipment, turbines, generators, oil cans, searchlights, signal lights, wireless outfits and telephone outfits, and what not.

"The troop ship of today will be a Latin-American, South African and Australian passenger-and-cargo carrier tomorrow, bringing our customers from those countries to the market, and taking their purchases to their doors. The American manufacturer, banker and business man generally, may well begin today to think in terms of world markets."

Hoover for Graduated Excess Profits Tax

Herbert Hoover, U. S. Food Administrator, in a letter to Senator Simmons, chairman of the Senate Finance Committee, giving his views in connection with the excess profits features of the new war revenue measure, which is now under consideration, said in part:

"The Government is, through many departments, endeavoring to reduce profiteering thro gh regulation and trade agreements and with a great measure of success. There are, however, certain economic necessities which must dominate war regulation of industry and which, in my view, can only be accomplished if reinforced by taxation on war profits.

"In the face of shortage—and we are short of most commodities today—the maximum production of that commodity is positively essential.

"In Government regulation, to safeguard production, all profits or prices must be based either directly through price or indirectly

—Seattle *Times*

UNTIL THE WELL RUNS DRY.

through profits, on the stimulation of production. The consequence is that it is necessary to set these standards sufficiently high to maintain and stimulate a certain level of high-cost producers. There is, however, a point in profits or price where the increase in production is not commensurate and restraint is needed, lest price ascend to a height where the people of the more limited means can no longer buy. This is conservation for the rich and not for the poor. On the other hand, neither the cost nor the profits in any two units of production will be the same, and while the high-cost producers may be limited to low margins, the low-cost producers under these conditions will make profiteering profits. While I am convinced that regulation of the types in practice by many executive departments are fundamentally essential to prevent runaway markets and vicious speculation, I can see no remedy for the intermediate situations below such regulations, except a grad-

uated excess profits tax that will restore that excess of profits made from public necessity back to the public."

Support for Amer. Dollar

Washington is considering sending a representative, or perhaps a commission, representing the treasury department, to Spain, Switzerland and Scandinavian countries to see whether it is feasible to support the American dollar in those countries by providing treasury funds to take up the slack. A suggestion to that effect was made by H. G. P. Deans, vice-president of Merchants' Loan & Trust Co. of Chicago, before Senate banking and currency committee recently, when Mr. Arnold, vice-president of First National Bank of Chicago, and Mr. Deans, appeared as representatives of Chicago clearing house.

—Chicago *Tribune.*
BEGINNING TO FEEL IT.

The plan suggested is patterned after that adopted by Great Britain, France, and, to some extent, Italy. In this country British exchange is held steady at a discount of about 2½% through agency of American bankers acting for the British treasury, who go into the New York exchange market and buy sterling whenever an over-supply threatens to put the cable rate below $4.76 7/16, and sell when it shows any tendency to advance above that figure.

Mr. Deans says: "In stabilizing sterling exchange, agents of the British government no doubt employ money received from the British treasury, and these funds may be part of the loans we have been and are making to Great Britain from time to time. However, England considers it good business to support the pound, and is willing to borrow money at interest for that purpose.

"Certain interests in Washington favor protection of the dollar abroad by formation of a federal foreign exchange bank by the United States government, such a bank to have a capital of $20,000,000 to $100,000,000, as might be found necessary and to establish branches or agencies in a great many allied and neutral centers."

"Rubber Industry Sound"—F. A. Seiberling

In a discussion of the position of the rubber manufacturers a few days ago, *The Wall Street Journal* stated that Goodyear Tire & Rubber Company, the second largest manufacturer of rubber goods in this country, probably had enough crude rubber on hand to assure capacity operations for the remainder of the fiscal year, which ends on October 31. F. A. Seiberling, president of the Goodyear company, now confirms this forecast and indicates also that the rubber embargo should not yet cause any great concern.

Mr. Seiberling says: "In the first place, the Government is interested primarily in the winning of the war and ships are of the first importance in any program of victory.

"Ours is an essential industry. We are largely engaged in war work, making tires for trucks and aeroplanes and for other types of cars used in war work, in making gas masks, balloons, etc. The Government is making heavier drafts on the output of the Goodyear factory almost daily. It is interesting to know that under the embargo arrangements, if we make application for a supply of crude rubber, the rubber that we have used in making war material on Government orders is not charged against our civilian needs.

"Our business this year has increased in leaps and bounds over that of 1917. We have every reason to be optimistic. This will be by far the largest year our company has ever had. Of course, the war comes before any private enterprise. But I can see no reason why we cannot keep out of all of the ships that the Government can possibly use and still get all the rubber for our requirements next year or during the war."

Saving the Savings Banks

"Where does the Savings Bank get off?" Albert W. Atwood asks this pertinent question in an article "Savings Banks in War Time" in the June 1 issue of the *Saturday Evening Post.*

"Now it is clear," says Mr. Atwood, "that

no institution lies more directly and immediately in the path of war time financial change and upheaval than the savings bank. Millions of dollars of Liberty bonds and War Savings Stamps can be sold only by drawing on the savings of the people. But it is the savings of the people which create and sustain the savings banks. Where does the savings bank get off?

"Here," continues Mr. Atwood, "is the bald question: Will not savings bank depositors, either from patriotism or because the rate of the Third Liberty Loan is higher than the bank rate, withdraw enough money to injure these banks seriously? It should be said at once that the question involves a fear for the future rather than a present reality. Withdrawals from savings banks during the first and second loan campaigns were not sufficient in themselves to cause apprehension. But the rates on the first and second loans were no higher than the savings bank rate. It is higher on the Third Loan, and may conceivably be still higher on future loans. Moreover, it is a progressive and continued withdrawal that the banks fear.

"It requires no deep knowledge of economics to realize that if great numbers of people generally follow such a course (that of taking money out of savings banks and putting it in war bonds) they will be impeding rather than aiding the conduct of the war.

"Certainly banks should not be classed among the non-essential industries. It is most vital that banks continue to flourish, to receive new deposits and to aid more people to cultivate thrift on a permanent basis. Essential industry must be financed. The reconstruction period must have its capital. It must be accumulated and saved during the war."

War Finance Corp. and Public Utilities

In stating that it is not the present disposition of the Directors of the War Finance Corporation to greatly interest themselves in amendments to the Finance Corporation Act in order that public utilities might receive loans directly from the Corporation, the Chicago *Tribune* of June 18 quoted observations made in the matter by George M. Reynolds, president of the Continental & Commercial National Bank of Philadelphia and Paul M. Warburg, Vice-Governor of the Federal Reserve Board. Mr. Reynolds is a member of a committee of bankers appointed by the Chicago Clearing House Association to meet with the War Finance Corporation for a conference should the directors of the Corporation invite one. With his return to Chicago, from New York, where bankers and members of the War Finance Corporation were in conference, the Chicago *Tribune* quoted Mr. Reynolds as saying:

"I was not at the meeting, since it was not one of the character in which, as a committeeman, I am interested. But the banks took the plain attitude that they did not consider it their function or in accordance with public policy to make the character of loans desired by the utilities companies. We must hold ourselves ready to forward the immediate financial plans of the Government and take care of commercial business. We could not do this if we were burdened with long term fixed loans.

"It is my opinion that the Finance Corporation should itself make these loans without involving the banks. The Corporation's capital is furnished by the people of the United States. We are all stockholders in the institution, and if the War Finance Corporation makes the loans they come really from the people as a whole.

—St. Louis *Despatch.*

AT THE END OF LOAFERS' LANE.

"If the utilities companies, or rather the maintenance of their credit, is desirable, or necessary, during the prosecution of the war, then I think it rests with the Government to furnish the assistance.

"I do not believe that every utility company which wants a loan should get it, but there are companies which have been carefully managed that are properly capitalized and whose present embarrassment is due to causes outside their control. Such should be given proper relief."

Mr. Warburg, while disclaiming, according to the Chicago *Tribune,* any intention to speak for the War Finance Corporation, said in Chicago on June 17:

"I am inclined to think the problem would work out its own solution if readjustment of rates to meet present conditions of operating costs could be brought about, assuring the solvency of utility corporations and placing them in a position to obtain the capital they need. Much has been done already toward this readjustment, many increases have been granted, and there is reason to expect further progress in this direction.

"The thought may have occurred to many that the War Finance Corporation has been created to cope with this very problem. The Corporation in the majority of cases expects to deal only with concerns that are solvent and able to provide a banker's guaranty. The amount that may be advanced without that guaranty is strictly limited by law, and it is safe to assume that except where the public interests absolutely require it, the Corporation does not consider itself warranted in making advances to companies on the brink of insolvency.

"Where advances from the War Finance

—N. Y. *Evening Post.*
AN ENEMY OF THE PEOPLE.

Corporation are to be sought it appears advisable therefore that the communities involved do their share in placing their public utility companies on a basis on which they may be at least self-sustaining."

"Federal Control May Last"—H. W. Seaman

In a bulletin of the City National Bank of Clinton, Iowa, Halleck W. Seaman, a director of the institution and chairman of American Wire Fabrics Co., discusses Federal control of railroads and the probable outcome. Coming from a section of the country which has harbored the most vigorous opposition to higher freight rates and assertion of the right of the states to regulate transportation, the bulletin is notable for its frank recognition of the failure of the old dual system of regulation. tion.

Mr. Seaman assumes that, if government control works well during war times, it will continue after the emergency which created it has passed, and inclines to the belief that the return of the railroads to ownership of the individual companies will be all but impossible. On the passing of the state railroad commissions, Mr. Seaman says:

"Not the least of the reforms possible under the nationalization of these public utilities will be the probable wiping out of a half a hundred separate state boards of railway commissioners with their conflicting and harassing regulations. State lines, so far as transportation is concerned, will be eliminated. Heretofore a railroad may have been a 'saint' in Maine, but a 'bad man' in Texas. Federal, rather than state, charters will be the order of the day. Regional directors, representing natural traffic zones, will supplant state boards and perform a more highly trained and satisfactory service.

"Nor would it be strange, if the plan works out well, that corporations doing an interstate business should surrender their state charters and seek to incorporate under Federal laws, to avoid the multifarious petty annoyances to which they are now subjected. This colossal railroad trust may pave the way for great industrial combinations to be fostered rather than fought by the Government."

In Defense of Wall Street

Denial of the oft-repeated charge that Wall Street is entirely mercenary, which he stated came mainly from persons who enjoyed criticizing men who do things, rather than attempting to aid, to the best of their abilities, the government, especially in war times, was made by Gerhard M. Dahl, vice-president of the Chase National Bank, of New York City, in an address to the members of the Minnesota State Bankers' Association, at their annual meeting. He said, in part:

"A striking characteristic of our people for the past fifteen years or so has been hostility to the constructive intelligence of the country —hostility to success—hostility to business. History will probably record this as our muckraking period. Some of this muck-raking has been good and some of it has been bad—some of it just and some of it unjust.

"This hostility has also manifested itself in various sections of the country in an antipathy to Wall Street—Wall Street which, in some sections of the country, is the all inclusive

term for the City of New York, the State of New York and, some times, the entire Atlantic seaboard. It is best illustrated by the Socialist who, Walter Lippman says, actually believes that eugenics is a Wall Street conspiracy in order to sterilize the leaders of the laboring classes.

"All business men are not honest, nor are they all intelligent. All of Wall Street is not honest, nor is it all intelligent, but my observation of human nature in other walks of life than business and in other sections of the country than New York, leads me to the conclusion that the percentage of honesty and intelligence in business is at least as high as among the professions and that it is at least as high in Wall Street and New York as it is in other sections of the country. Wall Street and New York are a trifle more conspicuous probably because there are more people there and larger and more business is done there.

"The intense criticism of the country directed at the laboratory minds in Washington has produced such factory minds as John D. Ryan and William C. Potter at the head of the air craft; Charles M. Schwab, in charge of shipbuilding; Edward R. Stettinius as an Assistant Secretary of War; D. C. Jackling, as a builder of powder plants; Guy E. Tripp and Samuel McRoberts, in the Ordnance Department, and H. P. Davison, as head of the American Red Cross. All of these men are Wall Street men and their activities constitute Wall Street's answer to the charge that Wall Street is entirely mercenary."

Banking and Brokerage Opinions

Goodbody & Co.—In spite of the good war news—and we expect it to continue good—of big crops, of the return flow of billions of dollars spent for war materials and of the few business failures, we look for a sagging rather than an advancing price level for industrial stocks for the next few months. Labor scarcity, increased wages, higher freight rates and increased costs generally are, as we believe, eating the heart out of net earnings of most industrials. The big profiteering days are past. Congress need not waste time putting a lock on the stable door. The horse has been stolen. With the news all good, we think that most industrials should be sold.

J. S. Bache & Co.—The plight of the utility companies throughout the country is reflected in the appeal of the New York Railways Co. for increased fares. Public utilities have been meeting the increased burdens of the wai without proportionate increase in their charges, and the situation of most of them now, at the end of their resources, is lamentable and a crying national evil. The appeal to commissioners and others seems as hopeless as was that of the railroads to the Interstate Commerce Commission, before the Government took them over and pitchforked the narrow policies which had throttled them into the dust-heap. Such bodies of men seem to be so hedged about with narrowness and hide-bound adherence to warped views, that it seems utterly impossible for them to see straight and fairly.

American Exchange National Bank, New York.—Americans have not, as a rule, begun to economize. They have paid for Liberty Bonds and Thrift Stamps with surplus income and earnings gained from war-time increases, and the flotation of these securities has been due to good salesmanship rather than to economies that pinch and mean self-sacrifice. This demonstrates the wealth of the country and the strength of its financial institutions. New profits have carried war expenditures. The new revenue bill, which Congress will pass before it adjourns, is expected to provide eight billion dollars in taxes, so the shoe will commence to pinch in the fiscal year.

Keane, Zayas & Potts.—We believe that the market is again on a normal basis. By this we do not mean that it is shock-proof or that it will not react to favorable or unfavorable developments in the war. But we do mean that it is a two-sided market, with bulls and bears both operating in their specialties and in a way counteracting each other. It is quite possible, therefore, that prices may range higher, but it is improbable that they will decline sharply or far unless influenced by disastrous news from abroad.

Hayden, Stone & Co.—Speculatively, we do not feel any very strong convictions either way regarding the immediate future of the market. With the probability of a new German drive, prices may yield a little, temporarily, but we certainly do not look for any serious decline. On the other hand, it would appear as though only a definite indication of victory and peace could bring about any large advance. While we all hope for this in the near future, it must be admitted, in cold reason, that the probabilities are against it.

At the same time, the proposition may be laid down in general terms that with stocks selling to net as much as they do, and the probability of the continuance of these dividends for some time longer, stocks are, today, cheaper than money.

National City Bank of Chicago.—The security markets have shown surprising firmness during a critical money market period. There has been a further broadening of the investment demand for seasoned securities. A good deal of the buying has been in the tax exempt issues which have naturally come into greater demand at a time when materially higher federal taxes have been under discussion. As compared with a year ago, the output of new securities shows a material reduction, when loans other than the Government issues are taken into account. The probability is, however, that there will be some increase in new financing during the next few weeks. The Capital Issues Committee has done excellent work in using its influence to restrict new security offerings to such as were vitally required and which for that reason were not incompatible with the public interests.

BONDS AND INVESTMENTS

Investment Banking Revolutionized By War

New Types of Securities and New Selling Methods Suggested to Meet Post-War Conditions

By GEORGE E. BARRETT

WHILE the war has temporarily dislocated every industry, it has also brought about fundamental changes of a far-reaching nature which will permanently affect many lines of business.

Prior to the war, stocks and bonds were bought by a relatively small group of people in this country. The war has brought about a great change. Campaigns for Liberty Loans have been both a lesson in patriotism and an educational course in saving and investing.

It has been estimated that prior to the war from $2,000,000,000 to $3,000,000,000 was annually saved and invested in securities. In the last twelve months upwards of $10,000,000,000 has been saved and invested in securities. Whereas prior to the war it was estimated that only about 300,000 people in this country were accustomed to purchase securities, the First Liberty Loan had 4,500,000, the Second Loan 9,500,000, and the Third Loan upwards of 17,000,000 subscribers.

Before people can invest they must learn to save. The arguments and motives for saving today are supported by the patriotic appeal based upon the country's urgent need for financial support to carry on this great world war for democracy and liberty. It is estimated that the Government has been assisted in distributing the Liberty Loans to this vast army of subscribers by the services of upwards of 2,000,000 men and women. With their appeal for support of these loans they have carried the message of loyalty and patriotism to every home in the land. At the same time they have taught millions of our fellow countrymen their first lesson in thrift, saving and investing.

This educational work will continue to be carried on by the War Savings Stamp campaign and will be broadened and made more effective by each succeeding Liberty Loan campaign until the end of the war.

President Wilson, in his address to Congress, asking for a declaration of war, stated that it should be the policy of this country to pay as large a part of the cost of war as could be borne by the present generation, in equitable taxation. In the first year of war we raised about $4,000,000,000 by war taxation and $12,000,000,000 by Liberty Loans and certificates of indebtedness. The program for the second year of war calls for expenditures of about $24,000,000,000, of which about $8,000,000,000 is to be raised by taxation.

When the war is over it will unquestionably be the policy of this country to pay off its loans at as early a date as possible. The only means for repaying loans is through taxation. Who would doubt the ability of this country to retire these loans rapidly in view of its demonstrated ability to raise such enormous revenues through war taxation?

Millions of New Bond Buyers

What is to be the effect of the education and experience the American people have obtained through the Liberty Loan cam-

paigns and the repayment of these loans in the years following the war? Is it not reasonable to suppose that having acquired the habit of thrift, saving and investing, most of the people will continue to save part of their income and invest it, and is it not reasonable to suppose that they will want to reinvest the proceeds of the Liberty Loans when repaid?

The addition of such a vast number of bond buyers to the investing class in this country and the accumulation of such large sums will undoubtedly have a far-reaching effect, not only on investments, the prices of securities, interest rates and the future condition of the United States, but it will require fundamental changes in the types of securities and the method of handling their sale.

Bankers are beginning to recognize the changed conditions and are preparing to adjust their business to meet the prospective requirements of the "after the war" period. One of the principal requirements of this new class of business is the necessity of providing for smaller units of securities. Out of about $4,000,000,000 par value of Liberty Loans placed in the New York district to date, over $1,238,000,000 was applied for by 6,484,478 subscribers in denominations of from $50 to $10,000, or an average subscription of less than $200. Heretofore the principal units in which securities have been issued have been bonds of $1,000 par value and shares of stock of $100 par value. A number of issues of bonds have been made available in $100 and $500 units and a few in $50 units. However, a substantial part of the seasoned investment bonds outstanding are not available in units smaller than $1,000.

The War Savings Stamps are issued for 25 cents and the Thrift Stamps for $4.12 to $4.23, according to the month in which they are purchased, and represent $5 at maturity. It is suggested that to meet the requirements of the new class of investors, securities must be made available in denominations as low as $5 and $10. Perhaps units offered below $50 could be issued on a discount basis similar to $5 Thrift Stamps instead of in coupon form.

The Installment Plan

A large part of the Liberty Loans was not paid for in full at the time of purchase, but was bought on the installment plan. A vast amount of $50 and $100 bonds was bought with the payment of a few dollars down and the balance in weekly installments spread over a year. This method of purchasing securities has been practiced for a long time, although the general public received its principal experience with the installment plan through the purchase of furniture, pianos, phonographs, jewelry and clothing.

A certain part of the public prefers to accumulate their savings and pay in full for what they want at the time of purchase. Another part of the public finds that the necessity of making regular payments under the installment plan is a necessary help and incentive to saving. In selling a piano on the installment plan the house selling the piano offers the buyer the advantage of enjoying the pleasure of owning the piano at the time of paying the first installment, and the purchaser's desire for this luxury encourages him to agree to make the regular future installment payments. In such a case it is not the desire to save which prompts him to make these installment payments. Many of these people, however, recognize that if they were compelled to accumulate the money necessary to pay for the article outright they would fail to set aside the regular amount from their income necessary to accumulate the required total.

In the sale of life insurance policies with an investment feature, the advantage of the installment plan is effectively applied to saving. The regular payment of premium represents in part the regular installment payments on a savings contract similar to the purchase of investment securities.

The installment plan as applied to investment securities at the present time is generally known as the partial payment plan, and it appears that installment principles will find a wide application under the investment conditions likely to prevail after the war.

It is suggested, for example, that a corporation be formed by a group of bankers and the stock placed among bank officers, the corporation to buy sound investment securities and issue thereagainst a new security of various denominations and place it on sale at a number of banks on commission. A book of coupons may be issued with each bond, which would be acceptable

at any bank accompanied by the installment represented. Arrangements would, of course, be made with the banks in advance and a list of them printed in the coupon book. This would be similar to the coupon books used in the Third Liberty Loan campaign. Between $60,000,000 and $75,000,000 of the bonds in denominations of $50 and $100 were taken with these books in the New York district. Of course, many people who start to buy on the installment plan pay up in full before required to do so. This is no reflection on the practicability of the plan.

Economy in the Bond Business

Another problem connected with the distribution of investment securities after the war will be to devise a cheaper and a more economical method of handling the business. At the present time the margin of profit in the handling of high-grade investment securities and issue thereagainst a new securities is so small that on units of less than $1,000 it hardly pays to handle the transactions.

In the sale of Liberty Bonds and War Savings Stamps, the services of the salesmen, the publicity in the news columns and the advertisements were contributed practically without cost to the Government. In the sale of standard investment securities, salesmen are employed, offices maintained, advertising paid for and many services rendered the investor requiring large expenditures. It would be out of the question to apply these methods to the sale of securities in $100 and smaller units.

It would seem that the greater part of this new army of investors will not be in a position properly to select good securities from among the many issues available. Some effective means must be devised to prevent the exploitation of these innocent investors by the promoters of worthless securities.

It is true that Blue Sky Laws have been passed in many States and that the Investment Bankers' Association is co-operating to prevent the advertising and circularizing of fraudulent securities. However, it seems almost impossible to stamp out entirely the flotation of a large volume of these worthless securities. In addition there are many securities which, while not fraudulently issued, are not suitable for investment, and are in reality only speculative ventures such as few men can afford to undertake.

Perhaps some corporation can be formed under the guidance of the leading bankers of the country and *with governmental supervision* which can take in a large volume of various sound securities and pledge them as collateral for the issuance of a new type of security in small denominations suitable to the new class of investors. Such a plan should protect the investor and give greater safety through a broad diversification of the risk. It is the application of this principle which protects the investments of the life insurance companies and the banking system of this country—diversification of risk.

The banking institutions of the country having participated to such a large extent in the sale of Liberty Bonds will be an important factor in the future in the distribution of securities.

Importance of Educational Publications

There is a great need for constructive educational work on the part of the newspapers and magazines of the country. With so many million bond buyers and investors it would appear that a large percentage of the readers of the papers and magazines should be interested in clean, sound, constructive financial articles and reliable information. Some plan of co-operation on the part of the investment bankers would be effective in securing of large volume of free publicity along these lines.

Perhaps a new plan of advertising investment securities is in order. It would seem that all newspaper and periodical financial advertising should be more profitable after the war. Here again some specially designed advertising might be carried on cooperatively.

Perhaps it will be possible to utilize billboard advertising now that the Government has accustomed the public to look at the billboards for information regarding the Liberty Loans. Surely if the Government has dignified billboard advertising to assist in meeting its own financial requirements, this means might properly be used for the sale of sound investment securities after the war. This practice has been in vogue for many years in foreign countries, where the great mass of the people are "dyed in the wool" bond buyers.

The A B C of Bond Buying

How the Ordinary Investor May Judge Bond Values

III—The Mortgage Bond—Security Behind Different Classes of Bonds.

By G. C. SELDEN

THE mortgage bond, in the minds of many investors, expresses the highest security outside of U. S. Government bonds. Everybody is familiar with the mortgage, which means that if you can't get your money when it is due you can take certain property and sell it and apply the proceeds to the payment of what the debtor owes you. Where the property is worth more than the debt, this seems like a "sure thing." So the investor concludes that a bond which has a mortgage behind it must be about the best kind of bond to own.

In regard to many mortgage bonds that is certainly true. But in other cases the original simplicity of the mortgage has all but disappeared under superimposed complications, and in other instances the value of the property behind the mortgage may have depreciated to such an extent that about all the word "mortgage" amounts to is to give a pleasant sound to the title of the bond.

Moreover, the mortgage may not apply directly on specified real estate, plants, equipment, etc., but may be on "collateral," or stocks or bonds which to a greater or less extent represent such properties. Then the question of course arises what this collateral is worth and whether it is going to continue to be worth it.

Ossa Piled on Pelion

Some of our railroads have piled Ossa on Pelion in the matter of mortgages. The clearest way is to take an example, and I will select the Chesapeake & Ohio Ry. convertible 4½s because this is after all, as matters now stand, a promising bond, in spite of the remoteness of its mortgage backing.

There are $37,200,000 of these bonds authorized, of which $31,390,000 have been issued. These are secured *jointly* with $125,000,000 authorized, $47,265,000 issued, of "first lien and improvement" bonds as a first lien on 40.9 miles of road, a second lien on 4.2 miles, third lien on 743.8 miles, fourth lien on 801.7 miles, and a fifth lien on 252 miles. Since the two issues of bonds are secured jointly by these liens, it is essential to know that the "first lien and improvement" bonds also have behind them collateral of a *par* value of $47,148,000. This, however, indicates nothing as to the *market* value of that collateral. In fact, it is often difficult to estimate the market value of inactive, underlying collateral under a bond issue. The collateral, it will be noted, does not apply on the convertible 4½s. Their claim is solely on the miles of road above specified.

It is easy to see that it would take a good deal more than the proverbial astuteness of the "Philadelphia lawyer" to estimate the value of these bonds on the basis of their mortgage security. And we may note in passing how little it takes to make a "first lien and improvement" bond—the only real property (as distinguished from collateral) on which that issue has a first lien being 40.9 miles of road, while the total amount authorized for the two issues of bonds is $162,200,000.

Now what does all this mean? That the C. & O. convertible 4½s are valueless? By no means. Merely that the mortgage security behind them is so mixed and remote from the rails that the bonds may as well be considered debentures, that is, simply a debt owed by the company and secured by its general credit standing. Considered from this standpoint, the outlook for these bonds is very good, although they are not classed as strictly "high grade."

When a Mortgage Has Value

It is well to remember that the only value the mortgage has for the mortgage bond holder is when the company goes into receivership. Up to that moment it makes

no difference to him whether his bond has any security behind it or not. The interest will be paid until receivership comes, and the principal is not yet due, or if it comes due that must be paid also.

When receivership does come, of course the holder of a bond which has a strong first lien on the property will be likely to come out much better than the holder of a bond which has only a distant lien or no direct lien at all. But it is selfevident that it is much better to be the owner of a debenture bond of a company which will not go into receivership than the owner of a first mortgage bond of a company which will.

The strength of the company, therefore, should be given a great deal more weight in the selection of a bond than the character of the mortgage security behind the bond. And this is just where the ultra-conservatism and excessive caution of the average bond buyer leads him into a mistake. He has been thoroughly educated in the idea that he must have sound security for any loan. So when he considers buying a bond his first thought is about the security behind it; and in many cases he devotes more time to the careful study of that than he does to the examination of the company's earnings, growth and general prospects.

Even with the best mortgage security, a receivership is annoying, worrisome and often a losing proposition. It is better to devote time and study to picking out securities of companies which will avoid receivership than to selecting those which would come through a receivership satisfactorily.

This mistaken state of mind on the part of many investors results in creating the following rather surprising situation: The risk in the highest grade bonds is nearly always greater *in proportion to interest yield* than the risk in lower grade bonds.

Suppose, for example, one investor puts $50,000 into high grade mortgage bonds which yield him an average of 5 per cent yearly interest. For simplicity we will assume that they are all due in ten years. At the end of that time, then, he has his $50,000 back and has received 50 per cent. in interest, or $25,000. Another investor puts the same amount into ten-year bonds which give him an average yield of 7 per cent.—which are necessarily of a lower average grade than the bonds which yield 5 per cent.

At the end of the ten years the second investor, if all goes well, will have his $50,000 back and will have received 70 per cent. in interest, or $35,000. He is $10,000 ahead of Investor No. 1. That is, the second investor could lose the principal of one $1,000 bond each year during the entire period and still come out even with Investor No. 1. That would mean that one-fifth of his $50,000 bonds went into receivership and proved a total loss—and the chance of loss on well selected 7 per cent. bonds would not be nearly so great as that. On the average, not more than two or three of the fifty bonds would result in a loss.

The above assumes, of course, that Investor No. 2 did not put all his eggs in one basket, but made a distributed investment in his fifty 7 per cent. bonds. If so, his risk was smaller in proportion to results obtained—because he obtained better results, even assuming that a few of his bonds proved to be no good.

To phrase it a little differently, *high grade bonds sell higher in comparison with their real value than the lower grades of bonds.*

There is another reason for this, besides the psychology of the average investor. Savings banks are limited by law to investments in certain classes of high grade bonds. That has a tendency to increase the demand for such bonds and therefore to raise their price in comparison with other bonds.

Security Behind Different Bonds

A fact that illustrates the elasticity of names for bonds is that a U. S. Government bond is a debenture only—it is the Government's promise to pay. But the credit standing of the United States makes the bond much stronger than any mortgage bond. The same may now be said of our state bonds, although there have been a few cases of repudiation in the past. Also, there are a few doubtful state bond certificates afloat, so that a state bond should be examined as to its validity before purchase.

The payment of state and Government bonds depends upon good faith, but payment of a municipal bond can be enforced by appeal to the state or federal courts. The

main considerations, therefore, are the assessed valuation of the property included in the county or municipality and the extent to which it may be taxed under the constitution or statutes of the state. These are compared with the total outstanding debt of the municipal division issuing the bonds. But it is to be borne in mind that the total assessed valuation of a county, for example, must cover not only the debt of the county itself but also the debts of subdivisions, such as townships and cities.

The validity of a municipal bond has to be passed upon by competent legal authorities; and the good faith of the municipality, as shown by its previous dealings with investors, naturally has great influence upon the price of its bonds.

Actual mortgage security behind municipal issues is not uncommon, such mortgages applying on the special property for the creation or improvement of which the bonds were issued. Moreover, in New England a judgment against a municipality may be executed against the estate of any inhabitant, so that holders of New England municipal bonds have security equal to a mortgage on all the property within the municipality.

As to railroad bonds, we have already seen that the mortgage security behind them is often very complicated. Which bond issue should be rated as coming before another is often a question for hair-splitting debate. Lawrence Chamberlain, in "The Principles of Bond Investment," has summarized the general question of precedence as follows: "The secured obligations of a corporation are superior to the debenture; lien security is surer than guaranty; lien on realty is stronger than lien on personalty; realty that is merchantable, or that has its own independent earning, makes a better lien than realty that cannot readily be sold or that has earnings dependent upon the cohesion of the entire property. A first mortgage has a better claim than a second; a second than a third; primary liens anticipate secondary liens, and secondary liens anticipate junior liens."

This is really about all that can be said, or that needs to be said, about the priority of railway bonds. The railway equipment bond, however, stands upon its own feet and has no relation to the other securities of the railway company. It is secured by a mortgage upon certain specified equipment —that is, locomotives and cars—and if the interest and principal of equipment bonds are not paid when due the holders of the bonds can take over the equipment and sell it to satisfy their claim regardless of the condition of the railroad itself.

Equipment bonds are always dated to mature serially, so that as the equipment itself depreciates through use the amount of the bonds outstanding grows less. In nearly all cases the maturity of the bonds is considerably shorter than the life of the equipment, so that the proportional security behind the bonds is constantly increasing. For this reason, as well as because of their direct mortgage claim on tangible and movable property, equipment bonds are highly thought of and usually sell at prices which give only a moderate yield on the investment.

Public Utility Bonds

Street railway bonds are similar to steam railroad issues, but the securities of a street railway are usually much less complicated. The important difference in the position of these two classes of companies is that the steam railroad owns its right of way, while the street railway uses the public streets under a franchise. The length of the franchise, therefore, becomes an element in the value of the company's bonds, since there is never any certainty as to the terms on which the franchise can be renewed. In some cases, however, it is perpetual.

Other public utility bonds often suffer under this difficulty of a limited franchise or charter, such as gas, electric, water and irrigation bonds. But in recent years numerous such companies have been gathered into large groups under holding corporations, and the bonds of these holding companies are necessarily much stronger, other things being equal, than the bond of a separate utility serving a single community. On the other hand, an intricate analysis is often necessary before the true position of such a holding company can be determined, because of complicated intercompany relations and the lack of complete reports as to the earnings of some of the subcompanies.

There are two kinds of real estate bonds. One kind is based upon the combination of a large number of real estate first mortgages,

against which as security the bonds are issued bearing a rate of interest slightly lower than the average rate on the various mortgages. If the company issuing these bonds is honestly managed, such bonds are high grade.

The other kind of real estate bonds is issued as a basis for real estate promotions. A company owning a considerable amount of improved or unimproved real estate issues debenture bonds. The interest on them has to be earned by the income from improved property or the rise in value of unimproved, or both. It is evident that such bonds are essentially speculative.

Industrial bonds are usually the simplest of all to diagnose, because they represent either a first mortgage on plants or merely the general credit of the company. The conservative investor has been inclined to discriminate against them because of the wide fluctuations in earnings of most industrial companies. But this general prejudice is unjust. Every bond should be examined on its own merits.

(*To be continued.*)

Present Position of Liberty Bonds

All 4s Should Be Converted Into 4¼s—The Causes of Present Price Levels—Redemption Probabilities—Have Bottom Prices Been Touched?

By WILLIAM T. CONNORS

THE important point which holders of Liberty Bonds should bear in mind right now is the necessity of converting all 4s into the new 4¼s. I don't see that any investor can have a sound reason for continuing to hold the 4s. The maturity will be unchanged and all other provisions will be the same, except for the slight addition that 4¼s held by an individual for six months preceding his death will be accepted in payment of Government estate and inheritance taxes. The only essential difference will be in the interest, and it is certainly to the advantage of any investor to get 4¼ per cent interest rather than 4 per cent.

The Government requested holders of the 4s to wait until July 1 before making the conversion. It may now be made at any time up to Nov. 9, which is the final limit.

Prices Apparently Natural

When the 4¼s were authorized a provision was incorporated in the law that the Secretary of the Treasury might at his discretion apply 5 per cent of the proceeds from the sale of the 4 per cent and 4¼ per cent bonds to a sinking fund to be used in purchasing bonds in the market to maintain the price. This means that about $425,000,000 is now available to support the price, at the Secretary's discretion.

There is, however, no indication that any part of the sinking fund has as yet been used for this purpose. If any such purchases have been made they must have been small, as the presence of any large Government orders would have been recognized in the market.

It may be that the Secretary considers it desirable to buy bonds for the Government only in case of a crisis of some sort or an attempt to cause an artificial depression in the price. It would seem to be a difficult matter to establish a higher price for Liberty Bonds than would naturally result from investment conditions. That would be a good deal like trying to make water run up hill. And broadly considered, there is certainly little use in the Government's selling bonds only to buy them back again after a short interval. So long as the bonds are merely seeking their natural market level there will be little to gain by Government interference with the market.

At current market levels both the 4s and 4¼s yield around 4⅝ per cent if held to maturity, assuming that the 4s are con-

verted into 4¼s and that they are not redeemed in advance of maturity. It will be remembered that these issues are not exempt from the supertaxes of the income tax except for the first $5,000 of bonds held. They are therefore not especially attractive to large investors from that point of view. The 3½s monopolize that advantage. The 4s and 4¼s are, however, exempt from the normal income tax, and from other taxes except estate and inheritance taxes and the supertax on holdings above $5,000.

With these tax provisions, and with the present scarcity of capital, the current investment yield of 4⅝ per cent cannot be considered high, even admitting that the credit of the United States is now the best in the world. The best municipals, entirely tax-exempt, now yield around 4½ per cent, and the tax-exempt Federal Land Bank bonds yield about 4¾ per cent. From the investment point of view Liberty Bonds are selling at a fair price.

Who Are the Sellers?

The question is often asked, Who are the sellers of Liberty Bonds? Why should so many of those who have just bought the bonds for patriotic reasons turn around and nullify the good effects of their own patriotism by selling the bonds in the market?

The selling comes largely from those who have been compelled by the public sentiment of their communities to buy more bonds than they were really able to carry.

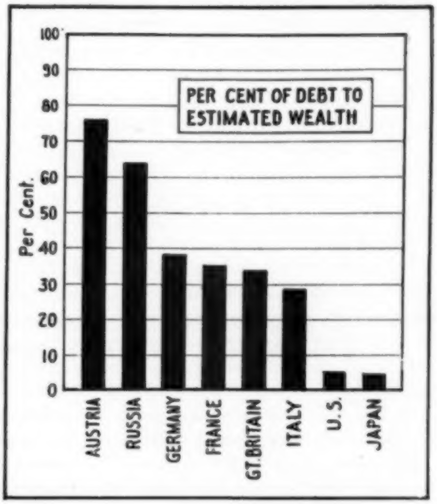
A moment's thought will show that a great many persons are so situated that they cannot afford to be stigmatized as unwilling to buy bonds in proportion to their apparent means. Those of German descent, for example, would lay themselves open to suspicion if they did not buy. Others feel the necessity of maintaining their business credit by liberal bond purchases, even though as a matter of fact they may at the moment be very much cramped for cash. Still others have some sort of social standing to maintain which will be helped by buying bonds. And in some cases a good deal of pressure is brought to bear upon persons who are really not in a position to buy bonds—for there are plenty of people who feel it their duty to see that their neighbor is just as patriotic as they are, while they have a less direct and intimate knowledge of their neighbor's burdens than of their own.

When we remember that almost $8,000,000,000 of 4s and 4¼s were sold by the Government, it is clear enough that there must be considerable sales in the market by the several classes of persons above mentioned.

Those who buy Liberty Bonds in the market are not acting from motives of patriotism. They are figuring on safety and income return. So current market prices represent the natural investment worth of the bonds with a fair approximation to accuracy.

The Question of Redemption

The First 4s are due in 1947, but may be redeemed in 1932 or after, and the Second 4s are due in 1942, but redeemable in 1927.



The date of maturity affects the yield. For example, the Second 4s at current prices, if converted into 4¼s will yield about 5.1 per cent if redeemed in 1927, but only about 4.65 per cent if they run to maturity in 1942. Therefore the question of when the 4s are likely to be redeemed enters into their value.

Now that we have over $4,000,000,000 Third 4¼s to be paid off in 1928, it is hard ly probable that we shall be in a position to redeem the Second Loan in 1927, only one year previous. The refunding of the Third Loan, and doubtless the paying off of some

part of it, will be about all we can attend to for several years. Moreover, within the coming year we shall doubtless add another $12,000,000,000 or $15,000,000,000 to our present indebtedness. Our present loans mean over $100 per capita, and if we get through the war with less than $300 per capita to take care of in the future we shall be fortunate.

It seems inevitable, also, that our normal Government expenses should be considerably higher after the war than before it. The Government is assuming tremendous new responsibilities and some of them will probably prove permanent.

All this will mean a considerable burden. We can carry it, but it is likely that we shall not be in a hurry about redeeming bonds which can just as well be allowed to run to maturity. Comparison of the various issues of Liberty Bonds in the market shows that investors are taking this view of the matter, for the yields of the First 4s (converted), Second 4s and Third 4¼s are practically the same when we figure that the first two are to be converted into 4¼s and that all the bonds run to maturity.

Our Resources

The graph herewith shows the relation of our present national debt to our estimated wealth in comparison with the principal European belligerent nations. The figures are not absolutely accurate because of lack of definite information as to Russia and Austria on certain points, especially in the matter of estimated wealth; but they serve to show the situation approximately.

It is clear that we have a long way to go before it will cease to be true that our Government bonds are the world's best security. At the close of the Civil War our debt was over 10 per cent of our national wealth, or more than double the per cent now. That seemed like a heavy indebtedness, yet it was only 20 years until money was pouring into the Government Treasury so fast that it was difficult to find use for it. We bought up a great many bonds at a premium, but even then our wealth was almost a burden to the Government.

It is likely that our debt in this war may eventually exceed 10 per cent of our wealth, but it will not exceed our ability to carry it and eventually to pay it. As a 4⅝ per cent investment, therefore, Liberty Bonds are well worthy of comparison with other bonds, especially by those persons whose incomes do not reach the supertax stage, or by others up to $5,000 worth of bonds. It is a fair estimate that Liberty Bonds will not at any time sell much below current prices, while after the war they are certain to reach a substantial premium.

THE WIDOW McCARTY AND THE DANGER SIGNAL OF FINANCIAL ADVERTISING

Mrs. McCarty does not care to state how many dollars she lost through "investments" in "securities" which proved worthless before she learned what to avoid—but she is willing that others may profit by her expensively acquired knowledge. She now looks for certain "danger signals"—and governs her course accordingly. She says:

1. Avoid the lure of extremely large profits, the invariable promise of dishonest promoters. Admitting the promoters are honest, there are many uncertain elements which make for success or failure.

2. Avoid those securities where the expected profits are based on the record of other successful companies. Henry Ford or John D. Rockefeller might make only moderate successes if they were to start today in the same business.

3. Avoid stocks selling at some absurdly low price; selling at far below par, yet represented as big earners; offering a limited number of shares to one person; declaring that the present allotment will soon be exhausted; failing to state conspicuously the par value, and denouncing Wall Street in order to throw a blind over their own operations.

4. Avoid securities, the price of which is advertised positively to advance at a certain time and hour. Values do not advance by the clock.

5. Avoid the securities of concerns that have been in operation a year or more if an ESTIMATED instead of an ACTUAL statement of earnings is presented. That would obviously indicate that the actual statement was too poor to present.

6. Consider character—the character of the house, firm or syndicate handling the securities—and the character of the men managing the enterprise whose securities are being offered.—***National Vigilance Committee of the Associated Advertising Clubs.***

Bonds of Two Strong Railroads

Louisville & Nashville and Atlantic Coast Line—Their Conservative Management and Fortified Cash Position—Leading Bonds

By GEORGE S. HAMMOND

THE best single word descriptive of the management of the affairs of the Atlantic Coast Line-Louisville & Nashville System is "conservatism." The properties are efficiently operated, kept in the pink of condition, and have for many years brought in excellent profits. The 7 per cent dividend rates are liberal enough, as railroad dividends go, but the payments are much less than the amounts usually available, and such a thing as an extra has been unknown for many years. A large part of the sums available for dividends, frequently a majority, is devoted to additions to property and to working capital. In fact, these roads keep about the strongest working capitals, in proportion to their size, to be found in the entire list of American railroads. At the end of 1917 each of them had cash balances equal to over two years' interest charges, and there is seldom if ever a dollar of floating liability. This conservatism and resulting strong, clean-cut financial condition is the outstanding reason for confidence in these companies.

Atlantic Coast Line Control

The Atlantic Coast Line, though the smaller of the two, is the company in control of the system, through ownership of nearly $37,000,000 of the $72,000,000 Louisville & Nashville stock. H. Walters is the chairman of the boards of directors of both companies and has been chiefly responsible for shaping their policy. The Coast Line extends from Washington and Norfolk to Jacksonville, Tampa and Montgomery, touching practically every important city in between. As the best equipped road, physically and financially, in this territory, it is in an excellent position as regards competition, and is a very important factor in the field of transportation for the South Atlantic States.

The Louisville connects with its parent company at Montgomery and runs south to Mobile and New Orleans, and north to Louisville, Nashville, Cincinnati and Knoxville, traversing a territory, roughly, between the Illinois Central and the Southern, but criss-crossing the lines of both of them frequently. Through its half interest in the Monon, the Louisville has access to Chicago.

With their combined mileage of nearly 13,000 miles, and their combined gross earnings of $121,000,000 (in 1917), the two roads, considered as a single system, form one of the half-dozen or so most important railroad properties in the United States.

Earning Power

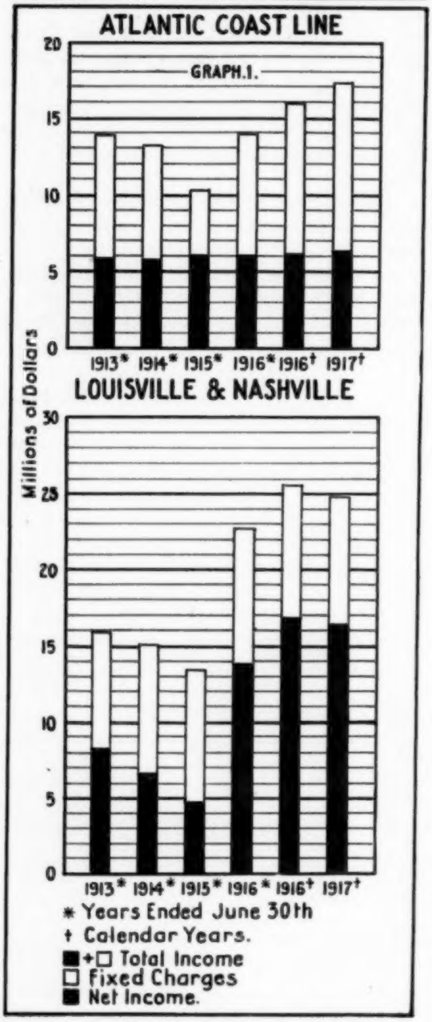
The protection in earning power enjoyed by their bonds is well indicated by the income accounts for the year ended June 30, 1916, which are given in the table on this page. They show revenues somewhere between those of the poor year preceding and the very prosperous year following, so are probably quite close to the incomes which will be reported under Government control. It will be seen that both roads have outside or "other" income sufficient to pay over one-half of their total fixed charges. In 1917 this account showed much larger figures than for the period given here.

INCOME ACCOUNT, YEAR ENDED JUNE 30, 1916

	Louisville & Nashville	Atlantic Coast Line
Gross revenues	$60,317,993	$34,445,110
Operating income	18,265,906	9,838,805
Other incomes	4,456,169	3,973,275
Total income	$22,722,075	$13,812,080
Fixed charges	8,768,225	6,056,544
Balance	$13,953,849	$7,755,536

The largest bond issue on either road is the Louisville & Nashville 4 per cent Mortgage, due 1940, of $64,768,000, now at about 83, yielding 5.35 per cent. It has long been recognized as one of the soundest

of savings bank investments and has, under normal conditions, shown minimum price fluctuations, as illustrated in the part of the chart presented with this article covering the earlier years. It may seem peculiar that a bond so highly regarded is not a first mortgage, except for its lien on 592 miles of road. It is a second mortgage on 1,130 miles of important lines, however, and the prior liens are so light that the Unified 4s have a very large equity in the property.



The only other really large issue on the road is the Atlanta, Knoxville and Cincinnati Division 4 per cent Mortgage of $24,-745,000, secured by first, second and third liens on 892 miles of road, principally in Kentucky and Tennessee, and made up of about 30 different pieces of track. This bond is also on a high investment plane and sells at about 80, yielding 5.25 per cent.

Other excellent issues are the two South and North Alabama bonds, the First 5s of 1936 covering 200 miles of valuable Alabama lines by first lien, and worth about 99, yielding 5.05 per cent. The General Consolidated 5s of 1963 cover the same mileage by second lien and sell at about 94, yielding 5.35 per cent. Neither of these bonds has been at all active in recent months. The two issues together have a per mile rate of $103,385, or about three times that of the Louisville as a whole. This is unusually heavy for a divisional lien in Southern territory, but the South and North Alabama is a double tracked line connecting the northern part of the system centering in Louisville, and the southern lines centering at Montgomery. Between Decatur and Birmingham on this division moves the greatest freight tonnage on the entire system.

There are about 20 small divisional issues, most of which were put out many years ago and seldom leave their strong boxes to pass through dealers' hands. They are generally abundantly secured.

Atlantic Coast Line Issues

Of the Atlantic Coast Line issues the chief is the First 4 per cent Consolidated Mortgage of 1952, worth about 79, a 5.35 per cent basis. The amount is $50,888,000, the security a first lien on 1,024 miles of road, principally in Florida; a second lien on 2,639 miles embracing the greater part of the main lines of the company, and a third lien on 280 miles more. As in the case of the Louisville & Nashville United 4s, the prior liens are of small amount and, including them, the per mile rate is only $20,475, a very conservative figure. They have usually sold somewhat lower than the Louisville 4s, but are as sound a security as anyone requires.

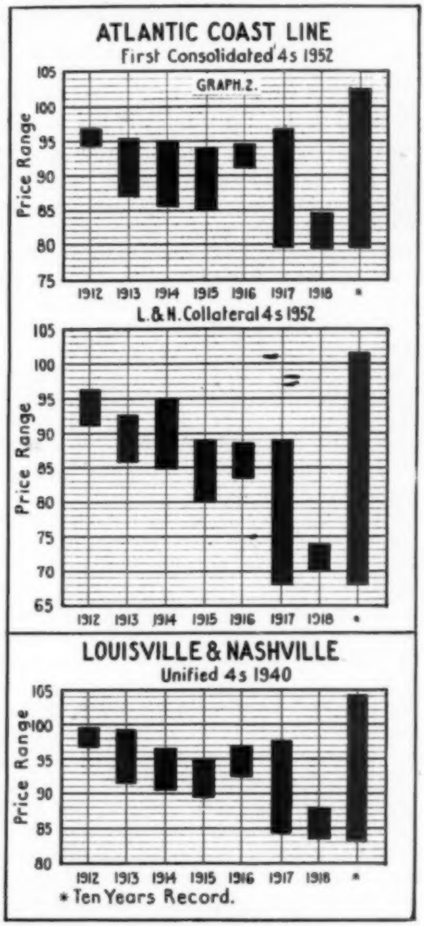
Junior thereto are the $17,669,000 General Unified 4½s of 1964, selling around 79, yielding 5.80 per cent. Although fully protected by the earning power of the company, there is more difference between their

quality and that of the First 4s than is shown by the difference in price, and I should class them as a safe, but not particularly attractive investment, particularly when compared with such an issue as the new Union Pacific 6s, selling to yield about 6.20 per cent.

The Coast Line's Louisville & Nashville stock ($36,720,000) is put up as the security behind $35,000,000 Collateral 4s of 1952, quoted around 71, yielding 6 per cent. The price for this issue dropped from 89 to 68, or 21 points, in 1917, an unusual decline for a high-grade bond even in the big general break of that year. As the Louisville earns from 6.75 per cent in the exceptionally poor year 1915 up to 22.75 per cent in 1917 on its stock, the Collateral 4s have no mean security behind them, particularly as the stock is put up at less than par, though ranging between 103 and 170 in market value since 1910. This bond is one which should share very well in an advance in the bond market, and is rather an attractive purchase.

The Atlantic Coast Line has also a number of old divisional issues which are generally very high grade and seldom come out on the market in any quantity.

The Southern roads seem to have, comparatively, about the best prospects of any railroad group in the country for the after-the-war period. The South has attained a prosperity that is not only unprecedented, but well distributed as to sections and classes. Its products, raw materials and foodstuffs, are basic, and will undoubtedly be in big demand for years to come. With their splendid facilities and strong resources the Coast Line and the Louisville should be able to take advantage to the utmost of their opportunities, with consequent enhancement in the value of their securities.



GENERAL DU PONT, WHO "RETIRED" SIXTEEN YEARS AGO

Gen. Coleman du Pont, who recently became President of the Industrial Finance Corporation—chief stockholder in the one hundred banks operating The Morris Plan of industrial loans and investments—has received the honorary degree of Doctor of Laws from Lincoln Memorial University. He has also accepted the post of Commander in Chief of the Lincoln Patriotic Army, composed of volunteers for patriotic service, below the draft age and above it. General du Pont has sold that old Boston institution, *Littell's Living Age*, to the *Atlantic Monthly*. His recent acquisition of the Waldorf-Astoria makes him the head of a group of New York hotels exceeded in size only by the Biltmore-Belmont syndicate. Incidentally, he is the owner of the largest office-building in the world. For a man who had virtually retired from business before he became President of the du Pont Powder Company, sixteen years ago, the General seems to be a fairly active man.

Pierce Oil's Early Maturities

Highly Interesting Position of the Notes—Rapid Expansion of Company—Earnings and Current Financial Position

By IRVIN GILLIS

IN May last, Pierce Oil stock sold at $8½ on a par of $25. A steady rise, accompanied by considerable market activity, has carried the price on the Curb to $18 and above. Such a spectacular advance has called attention to one of the former Standard Oil companies which for years had remained almost unnoticed.

The original corporation, the Waters-Pierce, was one of the oldest oil distributers, dating back to 1855, and selling oil principally in the Southwest. Since 1877 it had refined and distributed oil in Mexico.

After the separation of the companies composing the old Standard Oil of New Jersey, control of the Waters-Pierce was sold per force of litigation, by Mr. John D. Rockefeller to Mr. Henry Clay Pierce and associates on a basis of $1,500 a share. At that time the company was capitalized at $400,000. The new control brought the property to an every day basis by giving themselves $1,350 in cash and $2,625 stock in the present Pierce Oil Corporation for each old share held, making a stock capitalization for the new company of $10,500,000. Soon after this $8,000,000 of one-year notes were issued in obtaining control of the Pierce-Fordyce Oil Association, another oil property in the Southwest.

On account of a state "anti-trust" law, the Pierce corporation was excluded from Texas for some years, and the Pierce-Fordyce represented the Pierce interests in that state till December, 1917, when the Pierce was given an over-due clean bill of health. At the end of 1917 some 3,645 "shares of beneficial interest" of the Pierce-Fordyce were held outside the Pierce treasury. Nearly all were exchanged for Pierce stock and notes and the last 50 shares have just been turned in for cash. The technical transfer of the former subsidiary has now been accomplished and the Pierce-Fordyce Oil Association no longer exists.

Pierce Properties

The Pierce Oil Corporation now owns about 130,000 acres of oil lands and leases, mostly leases, in Oklahoma, Texas, Arkansas and Mexico. Included are holdings in the Morris and Cushing fields of Oklahoma, producing oil of the finest quality sufficient in quantity to supply the Tulsa refinery. About 10,000 acres are in the Tampico field, and a single well, the company's "No. 5," should produce at least 8,000 barrels a day in normal times.

Crude oil production in this country is taken to the refineries in the company's own pipe lines and tank cars. An 8-inch line connects the Healdon field with the Fort Worth refinery. This 100-mile line was completed late in 1917 at a cost of about $2,000,000. A 38-mile line takes oil from the Cushing field to the refinery at Sand Springs.

Besides the refineries at Fort Worth, Tulsa, and Sand Springs, there are others at Texas City, Texas, and Tampico, Mexico. One of the officials states that the total present capacity is about 43,000 barrels of oil a day. The Tampico property also includes an asphalt plant.

The company owns three tank steamers of a capacity of 90,000 barrels, and some 1,500 tank cars. All three of the steamers are in company service, though two are under Government orders.

The products of Pierce Oil, ranging from gasoline to grease, were distributed from 17,273 cities and towns at last report, through 1,158 main stations. Agencies were established in Japan, China, the Philippines, and Australia, about three years ago.

Expansion in 1917

While reasonably aggressive in its program, Pierce Oil has not gone beyond its financial strength. The developments of the year 1917, aside from the completion of the 100-mile pipe line, were of far reach-

ing importance, and represent response to the country's increased requirements.

The capacity of the Sand Springs refinery was increased 30 per cent., a "continuous process" gasoline process being installed, and a lubricating oil and wax plant completed to supply the company's trade in this country. The storage capacity at Tampico was enlarged and the gasoline capacity increased. The Fort Worth refinery was doubled in capacity and a continuous gasoline plant installed. The capacity of the refinery at Texas City was increased about 20 per cent.

Some 461 steel underframe tank cars, 74 automobile trucks and automobiles were other additions. To make up for a wrecked but insured schooner, a motorship was purchased to run between Tampico and our eastern ports. The company leased and bought railroad equipment to bring the transportation facilities in Mexico to current requirements.

Securities Outstanding—Funded Debt

The company has now $17,853,848 capital stock outstanding out of an authorization of $33,000,000. Three issues of convertibles constitute most of the funded debt.

Early in July, 1914, a syndicate headed by Messrs. Hayden Stone Company and Ladenburg, Thalmann & Company privately offered at 93 the first issue—$10,000,000 ten-year 6 per cent. debentures, due at maturity at 105, and convertible into stock at $25 a share. They are callable at 105 upon 60 days' notice, but remain convertible until actually redeemed. An annual sinking fund of $200,000 was provided, beginning July 1, 1916. The company contracted not to issue any mortgage securities or debentures equal to or superior to this issue while these 6s of 1924 are outstanding, or without the consent of the bankers to issue any stock superior to the common stock into which the debentures are convertible. The proceeds were principally used to retire the $8,000,000 one-year notes issued to take over control of the Pierce-Fordyce Oil Association.

At the end of 1915 the possibilities of increased business created the need for further capital, and a new series of $2,000,000 6 per cent. convertible notes was offered by the same houses which took the first issue.

PIERCE OIL'S EARNINGS AVAILABLE FOR CONVERTIBLE ISSUES

Combined Comparative Income Accounts Years Ended December 31, Subsidiaries Included

	1915	1916	1917
Trading profits (sales, less producing and marketing expenses)			
United States	*$1,857,137	$2,960,887	$3,197,720
Mexico	....	676,621	757,050
	$1,857,137	$3,637,508	$3,954,770
Other Income:			
Interest earned, etc.	....	125,751	128,557
Flood loss reserve restored	....	....	25,715
Total income	$1,857,137	$3,763,260	$4,109,043
Deduct:			
Interest on floating debt	96,523	146,742	280,469
Bad debts	......	95,090	109,308
Other income charges	**511,120	191,711	262,655
Depreciation, including depletion of oil leases	......	91,304	933,445
Estimated Federal taxes adjusted	......	54,234	195,709
Total	$607,643	$579,081	$1,781,586
Balance	$1,249,494	$3,184,179	$2,327,457
Deduct:			
Interest on debentures and gold notes	600,000	733,103	717,967
Net surplus for year	$649,494	$2,451,076	$1,609,490

*On account of exchange position Mexican operations showed a loss of $54,683. **Includes $209,440 extraordinary losses on account of storm and flood at Texas City.

The second series are dated January 1, 1918, and are due January 1, 1921, at par. They are callable at par upon three months' notice, but remain convertible at $20 for the stock to actual redemption or maturity. The indenture provides that the corporation will not authorize any mortgage on its properties without equally securing these notes of 1921.

On December 31, 1917, some $9,523,000 of the convertible 6s of 1924 were outstanding and the full $2,000,000 6s of 1921.

In February, 1918, $132,000 two-year 6 per cent. convertibles were issued in exchange for Pierce-Fordyce Association "shares." Since the merger of the Pierce-Fordyce Association with Pierce Oil, the convertible issues have been the direct obligations of the combined properties.

Besides the convertibles there were outstanding at the end of 1917 obligations considered funded debt as follows: Car purchase obligations, $975,871; pipe line loan, $1,000,000, and steamship obligations, $630,418.

Current Financial Position

The "current and working assets" on December 31, 1917, amounted to $13,732,525, but included such items as tank steamers and barges, $1,790,476; tank cars, $1,991,022; stable and garage equipment, $273,455, iron barrels and drums, $409,237, and drilling tools and equipment, $61,104. No one will deny the instant convertibility of such items at the present time, but they cannot be included in normal current and working assets. After subtracting these amounts the total current and working assets stood at $9,207,230. The current liabilities totaled $6,164,232. Net current and working assets were then $3,042,998, a reasonably decent showing.

To be technically correct the "funded debt" and "current liabilities" would have to be transposed a little, but the totals would be practically the same. At the present time the current position is about $1,000,000 better than the above shows, reflecting earnings put back into the property since the beginning of the year, but the company is not willing to publish exact figures later than those given.

Earnings

At the time the second issue of convertibles was offered, the earnings of the Pierce properties for the preceding fourteen years, 1901-1914 inclusive, had been an average of $1,856,761 per annum, or over 2½ times the requirements of the two issues. Of these years 1909, 1910 and 1914 showed relatively small results, earnings running $918,318, $764,825 and $635,740. The last figures, for 1914, on account of Mexican troubles, reflect operations in this country only.

Later earnings in detail are given in the table herewith, arranged to show the balance, after various other charges, available for the convertible issues.

These figures show that the interest requirements of the convertible maturities of 1921 and 1924 have been splendidly provided for.

The company's large additions to capacity are reflected in the reports of net earnings (after interest and depreciation charges) for the months since the beginning January of this year, compared with corresponding figures for 1917:

	1918	1917
January	$112,072	$58,598
February	196,421	**14,642
March	139,720	85,667
April	386,343	74,803
May	*315,000	189,293
Total, 5 months	$1,149,558	$393,721

*Estimated.
**Deficit.

Figures for the five months are at the rate of $2,760,000 per annum, or about 15.4 per cent. on the present amount of capital stock.

Notes More Attractive Than Stock

On account of the complicated relationship between the amounts of Pierce Oil and Pierce-Fordyce shares outstanding, it is not possible to work out definitely from available figures the amount earned per share on Pierce Oil stock from the combined properties up to this year. The earnings available for interest on the convertibles is comparable, however, and I believe the best opportunities in Pierce securities are in the funded issues.

The stock has already advanced a great deal, when considered on a percentage basis, and perhaps has about discounted for the time increased earnings, and benefit of the association recently announced of Guaranty Trust and Lewisohn interests in

Pierce Oil affairs. I figure that in spite of better earnings and in spite of Mexican holdings which may eventually bring forth fabulous profits, Pierce Oil stock should not be expected to be placed on a permanent dividend basis for some time to come, because the company will need its funds for corporate purposes, including probable increased taxes.

After the 6s of 1921, convertible at 20, were sold in 1915, they declined to 85-86, but the activity of the stock has advanced them to 94-99. The latter figure must be considered to represent speculative value of the convertible feature, not investment position, and I would not be hasty in buying this issue. If I bought now I would be prepared to average down.

The 6s due in 1924 at 105 and convertible into stock at 25 are now selling around 83-84. To be sure they sold at 72-73 some time ago, but this ridiculous price is partly accounted for by poor distribution following the offering at such an unfavorable time as July, 1914.

Both of the larger convertible issues will further benefit marketwise by any advance in the stock from current prices, whether coming now or at any time prior to maturity of the funded issues. They are very apt to advance well above par before they are retired.

The 6 per cent. issue of 1924 is one of the most attractive securities on the market today, both as an investment and as a long pull speculation.

Readers' Round Table

Editor, The Wall Street Magazine,
New York City.

Dear Sir:—

After reading many articles and statements of the causes which have contributed to the necessity of the present government control of our railroad systems, I am moved to write to you and to state, what, in my opinion, is the true and fundamental cause for the revolutionary step taken by Washington.

Shortly after the war broke out in Europe, President Wilson issued a proclamation forbidding the making of any loans to any of the warring nations. A year or so, later, he rescinded this order after due consultation with our leading bankers and allowed them to begin financial operations with the Allies, on the plea made by the bankers, that this step was necessary in order to safeguard American business. Large loans were then made to the foreign powers, and in a number of instances, such loans were protected by deposits of foreign-held American securities, probably 75% railroad and 25% industrial securities, foreign investors always having shown more partiality to our railroad investments. With the making of these loans, our bankers encouraged the huge stock market bullish activity which culminated in November, 1916, in order to create a strong buying power and a fairly high level for the liquidation of the foreign held American securities, mostly railroad, deposited with them as security for loans. That such liquidation had been in progress during the whole of the bull market is now evidenced by the fact that the railroad securities never had a rise proportionate to that of the industrials, during the seething bull market, and this, notwithstanding that railroad earnings were large and well maintained throughout the bull period. Surely this is clear evidence that our gullible public was whipped into a fever of bullish enthusiasm, under cover of which every available share of foreign held American securities, was "gold-bricked" into the strong boxes of the people in return for good American cash. As a result of this huge "bunco" game, our railroad securities were depressed to abnormally low values, in the recent big bear market, such securities, falling, not from excessively high figures, as was the case with the over-bulled industrials, the railroads having been continuously held down by liquidation for foreign account, while tales of delayed bull moves in that section of the securities list were industriously circulated to catch the unwary investors who had faith in our American railroad systems, and could read no sign of impending danger in the earnings statements. The recent abnormally low values of railroad securities quite naturally injured the credit of our best roads in the money market, and when hard pressed for funds, as now they are, the Federal Government had no alternative but to come to the assistance of the roads by taking over the complete control, and placing at the disposal of the roads the governmental credit of the people, in order to safeguard our transportation facilities during the remainder of the war. In short, the death-knell of our railroad systems as individual enterprises, was sounded when permission was given to our bankers to make loans to the Allies and take as security for such loans foreign held American securities, mainly railroad.

Very truly yours, ——— ———

Investment Inquiries

Market Trend Downward

G. C. T., Canton, O.—Our opinion of the market has changed since the last "Outlook" appeared in the issue of July 6th. We now believe that the trend of stock prices has turned downward and therefore suggest that you sell your U. S. Steel common. It is unfortunate that you were not a subscriber to our Trend Letter service ten days ago when the advices were sent out to such subscribers.

Standard Oil of California's Decline

E. S., San Francisco, Cal.—The only explanation for the decline in this stock is the impresion that no large distribution of extras is expected in the near future. The Standard Oil group has not had a much greater decline than the whole market in general, and it is only during the last two months that a definite improvement has taken place in the industrials, and this has commenced to affect the oil group. The upward trend of Mexican Petroleum and Texas Company is perhaps an indication of the temper of the market, and it would not surprise us to see a sympathetic movement take place in the Standard Oil group in the very near future. Standard Oil of California is in a position to take its place prominently in any advance in the whole group as it is a sound investment issue of great quality. The stock is largely held by investors and while little or no liquidation takes place by the majority of large investors it requires small offerings from weak hands to lower the prices. We have not noticed any special weakness in such stocks as Standard Oil of New Jersey, Standard Oil of New York, Ohio Oil and other leaders of the Standard Oil group, and we have little doubt that all these, including Standard Oil of California, will "come back" sooner or later.

Prospects of St. Paul Preferred

W. J. P., Chicago, Ill.—This stock did not earn its preferred dividend in the last fiscal year and there was a deficiency which could be made up out of surplus, if the directors so desired. Government control will, however, help this road, and in all probability the company will pay its 7% dividend, at least for the period of the war. Large expenditures will probably be needed on many sections of the company's line in connection with the electrification of the system which is now going on. The road is in a fine physical condition. Its territory is prosperous and we believe that the policy of improvement under President Byram (who was formerly with the Burlington) will result in rescuing the company from its present difficulties. We regard the preferred as a good speculative investment for anyone who can assume the risk and will purchase shares during special weakness in the St. Paul issues.

Hudson & Manhattan 5's Well Regarded

N. H., Philadelphia, Pa.—These first refunding 5s are well regarded as a good speculative bond giving a high yield and reasonably secure under all circumstances. Although these bonds advanced about 10 points since we first recommended them, they are still cheap and can be purchased, we believe, with confidence. The Director General of Railroads has granted the company a substantial increase and even though these higher rates are under debate, it is probable that the higher rate will stand. We see no reason to anticipate the non-payment of interest and can recommend the bonds as a purchase for enhancement in value.

Hupp Motors a Speculation

H. S. M., Ashtabula, Ohio.—This company undoubtedly has a good record of past achievement, but the trouble is that it increased its capitalization out of proportion to the growth in earning power. Hupp Motors cannot be expected to keep on increasing its capitalization indefinitely, nor continue to pay the generous dividends of former days. With this speculative feature eliminated, and uncertainties surrounding all the automobile stocks, this stock can no longer be regarded as an investment. A very recent statement of earnings is not available, but for the six months ended June 30, the net income was $337,000, which left 56c. a share available for the common stock. For the six months ended Dec. 31, 1916, the company operated at a loss of $65,530.

Anaconda Copper's Dividend

R. E. D., New York, N. Y.—This company will benefit greatly by the increase in copper prices from 23½ to 26c., and it will also feel the effect of $1 per ounce for silver. The present dividend of $8 in face of higher taxes is practically assured, except if these taxes are entirely beyond expectation. Anaconda is an owner of stock in allied companies most of which are paying dividends which are practically safe. The stock of this company is a very attractive speculative mining investment, one of the best. It is probably worth substantially more than current market quotations.

Good Foreign Municipal Bonds

A. C., Brooklyn, N. Y.—City of Lyons 6s and City of Marseilles 6s are direct obligations of these municipalities and their only external loan. Lyons is next to Paris, the leading trading center of France, and has, according to the last enumeration, a population of 523,796 and a funded debt of 97,000,000 francs (approximately $18,000,000). Marseilles is the foremost seaport of France and, according to

the last figures, has a population of 550,619, and a funded debt of 122,800,000 francs (approximately $23,000,000). These are excellent short term Bonds and we recommend that you hold them.

Sinclair Gulf Overcapitalized

J. W. McC., Little Falls, N. Y.—This company is a holding company formed in 1917, with an authorized capital of 1,000,000 shares of no par value. The company has also outstanding $11,500,000 first mortgage 10-year convertible 6% gold bonds. During the current year earnings have been estimated to be at the rate of $500,000 a month, or $6 a share annually. But against this the company will have to pay heavy war taxes and the earnings will probably be not more than $5 per share. In our judgment, the company is liberally capitalized upon a basis of war prosperity and expectations that the oil industry will always be in a flourishing condition.

Franklin Mining in Bad Straits

A. S. G., Fitchburg, Mass.—This company earned 56c. a share in 1917, compared with $1.05 in 1916, and nothing in 1915 and 1914. Between 1863 and 1894 the company paid dividends amounting to $38 per share, while none have been paid since the latter date. The fact that the earnings were so poor in 1916 and 1917 upon a higher copper price, while the company was not able to show any earnings prior to those years indicates that the future of the company is by no means promising. The company is largelv overcapitalized and the future extremely uncertain. We see no prospects of the shares selling at a higher level, and at the present level of $5 it would appear advisable to switch your holdings into Howe-Sound and Ray Hercules, jointly.

French Government Debt

J. J. C., Quebec.—The French Government 5½'s, due April, 1919, in our opinion will be paid when due. We have no information as to any provision being made at this time, but in view of large loans made by us to France and the very hearty co-operation in financial and other affairs between the two governments, there appears no reasonable doubt but that these maturing obligations will be paid from loans advanced by us. We believe that in the future there will be no further offerings of French loans to the public, but that necessary funds will be largely financed by our Government.

Maxwell Motor Second Preferred

L. T., Chicago, Ill.—Maxwell Motor second preferred sells below the common stock in recognition of the fact that its speculative possibilities are limited to a return of $6 a share, under the most optimistic conditions. There is no limit, theoretically, to the ultimate return possible on the common stock. The second preferred is a 6 per cent non-cumulative stock, and if it ever receives its full dividend, which would indicate great prosperity for the company, the common stock would probably receive the same dividend or more; and the latter would even then possess further speculative attraction by reason of the impossibility of accurately judging the future. This state of things existed in 1917 when Maxwell paid its full dividend at the rate of $7 on the first preferred, $6 on the second preferred; and $10 on the common stock. The earnings on all three classes of stock have been consistently high, and during the last two years have averaged about $30 for the first preferred, $35 for the second preferred and $25 for the common stocks, estimated very approximately with current earnings. In spite of this creditable showing the second preferred cannot receive more than $6 in dividends when directors decide to place this issue and the common stock on a dividend basis again. Sustained high earnings must ultimately improve the dividend outlook for the common stock without restriction as to amount.

Maxwell second preferred is an attractive long pull speculation at about 20 a share, selling at one-fifth of its par value, and earning over 100 per cent on its market price.

Canadian Car and Foundry's Prospects

T. B., So. Bend, Ind.—Canadian Car & Foundry Preferred is a somewhat speculative stock to hold. The net earnings for the year ended September 30, 1917, were $2,572,884, as compared with $1,292,105 in 1916. After depreciation and interests, net profits for 1917 were $1,413,009, equal to $18.84 a share on the preferred stock, as compared with $353,256 in 1916, equal to $4.71 a share. The company has about $36,000,000 of unfilled orders on hand and prospects are good for new business. The output for March, 1918, was $5,250,000. In 1915, there was a deficit of $553,472 and also a deficit in 1914 of $65,809. Prior to that time, the earnings of the company had been good and amounted to $1,721,652 in 1913, $1,039,933 in 1912, $1,007,138 in 1911 and $832,530 in 1910. The poor business of the company in 1914 to 1916 inclusive, was caused through its war orders. The company is now getting on its feet and it can be reasonably expected that earnings will be substantial in the future. However, there are so many opportunities in the market, at the present time, to buy high grade preferred stocks of a more seasoned character, that we can see no advantage in keeping your money tied up in this issue.

RAILWAYS AND INDUSTRIALS

Seven Reorganized Rails

Rock Island, "Mop," "Frisco," M. K. & T., Wabash, Pere Marquette, Chic. & East Ill., New Orleans, Texas and Mexico, and Western Pacific—Their Greatly Changed Status and Present Positions.

By MEREDITH C. LAFFEY

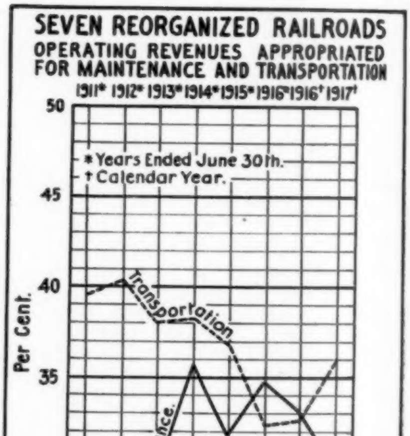
FOR the last few decades of American financial history, periods of panic and depression have brought with them as an outstanding characteristic collapses of railroad credit, receiverships, and reorganizations. So in 1914, when the outbreak of the European War produced a serious financial and economic upheaval, the weak members of the family fell by the wayside with a series of crashes that resounded through Wall Street and the other financial centers. Railroad earnings, already running below normal, declined severely, borrowing was impossible, and receivership became inevitable for a number of roads which had been struggling along for years under a burden of excessive capitalization and hampered by inferior physical condition and excessively repressive regulation of rates. By 1915, we find the railroads in receivership aggregating the greatest total mileage ever recorded in the United States. The principal among them are shown in Table I.

TABLE I—ROADS IN RECEIVERSHIP, 1915

	Miles Operated
Chicago, Rock Island & Pacific Railway	8,131
Missouri Pacific Railway	7,290
St. Louis & San Francisco R. R.	5,339
Missouri, Kansas & Texas Railway	3,865
Wabash R. R.	2,519
Pere Marquette R. R.	2,249
Chicago & Eastern Illinois R. R.	1,136
New Orleans, Texas & Mexico R. R.	1,078
Western Pacific Railway	959
Total	32,566

These nine lines include only the more important roads which were insolvent at this period. Together they represent 12.6 per cent of the railway mileage of the country, and embrace five of the forty most important roads in the matter of the volume of securities outstanding.

With the exception of the Missouri, Kansas & Texas Railway, and the Chicago & Eastern Illinois R. R., all of these lines have since been reorganized and are now operating under their new charters. The reorganizations have generally been along sound conservative lines, and it is desirable



to examine some of the changed aspects of these properties from the investment standpoint as a result of the readjustments of their finances.

It is thoroughly characteristic of a railroad which has had to struggle to meet its bills that the physical property has been allowed to deteriorate. Not only does the management have to forego practically all work of a betterment character, but the ordinary replacement of rails and ties, the repair of rolling stock, and all the thousand and one things necessary to keep a railroad in proper condition are pared down to save expense.

In the railroad's operating statistics, this condition is indicated by a low range of "maintenance ratios," meaning the percentage of gross operating revenues devoted to the maintenance of the property. Before long, however, this policy defeats its own purpose as well as runs the property to physical rack and ruin, for the "transportation ratio," or cost of moving traffic becomes so high because of the poor condition of the road's facilities, that the saving in maintenance is more than wiped out.

When a receiver is appointed, it is his duty on behalf of the bondholders to protect the property which he holds in trust. Freed from the need of paying unearned, or scarcely earned bond interest, and able to raise funds if need be through the sale of receiver's certificates, he sets to work to build up the road—to make up "deferred" maintenance. The maintenance ratio then rises sharply. Soon afterward, as the road and equipment gets back into condition, the transportation ratio falls and with the completion of the deferred maintenance we find the sum of all operating charges below those of the pre-receivership period.

TABLE II—PROGRESS OF ROADS SHOWN BY RATIOS

Maintenance Ratio

	Years ended June 30						C'lndar Years	
	1911	1912	1913	1914	1915	1916	1916	1917
Chic., Rock Island & Pacific	28.9	27.	28.	27.5	30.	30.7	28.8	31.0
Missouri Pacific	32.7	32.2	31.8	31.5	32.5	38.1	37.6	29.6
St. Louis & San Francisco	26.	25.3	25.7	34.	30.8	32.	32.2	27.7
Missouri, Kans. & Texas	25.6	27.9	27.	27.	27.6	38.8	40.6	34.8
Pere Marquette	28.3	28.4	32.9	54.6	30.5	29.6	29.6	27.
Chicago & Eastern Illinois	26.	27.9	36.2	40.6	38.	36.7	37.8	35.5
Western Pacific	....	27.2	23.4	34.7	32.4	34.2	25.	23.7
Average	27.9	28.	29.3	35.7	31.7	34.7	33.1	29.9

Transportation Ratio

	Years to June 30						C'lndar Years	
	1911	1912	1913	1914	1915	1916	1916	1917
Chicago, Rock Island & Pacific	38.2	40.5	40.3	41.4	39.6	36.0	34.3	37.8
Missouri Pacific	43.1	39.0	36.3	35.6	35.3	31.7	30.8	33.5
St. Louis & San Francisco	36.5	37.2	35.8	35.1	34.1	32.1	31.5	33.9
Missouri, Kansas & Texas	39.3	41.3	37.9	38.9	36.2	34.4	33.7	36.2
Pere Marquette	44.1	44.9	39.7	42.9	39.0	34.6	35.4	42.2
Chicago & Eastern Illinois	36.4	38.2	38.3	37.8	37.7	34.3	35.1	38.3
Western Pacific	....	41.0	37.5	35.8	32.8	30.6	29.1	30.3
Average	39.6	40.3	38.0	38.2	36.8	32.4	32.8	36.0

To appreciate the significance of these figures, the reader should recall that every decrease or increase of 1 per cent. in the operating ratio of our railroads indicates a respective gain or loss of about $35,000,000 annually. Although the M. K. & T. and the Chicago & Eastern Illinois have not been reorganized as yet, they exhibit the same general trend as the others and they are included in this article. The New Orleans, Texas & Mexico, formerly operated as a branch of the Frisco is omitted, as is the Wabash, the beginning of whose receivership occurred some years previous to that of the other roads.

While these figures and the chart are

TABLE III—CHANGES IN CAPITALIZATION

Bonded Debt

	Before Reorg.	After Reorg.	Decrease
Chicago, Rock Island & Pacific	$270,915,311	$220,230,347	$50,684,967
Missouri Pacific	277,349,620	227,054,620	50,295,000
St. Louis & San Francisco	294,606,588	260,792,122	33,814,460
Wabash	107,480,149	66,428,359	41,051,890
Pere Marquette	76,936,942	36,325,000	40,611,942
New Orleans, Texas & Mexico	28,582,000	21,700,000	6,882,000
Western Pacific	100,458,612	20,000,000	80,458,612
Total	*$1,127,747,222	**$852,530,448	*$296,916,877
Per Cent of Total Capitalization	74.9%	57.2%	
Per Mile of Road Owned	$44,577	$34,716	$9,861

Stock

	Before Reorg.	After Reorg.	Increase
Chicago, Rock Island & Pacific	$74,482,523	$128,904,683	$54,422,160
Missouri Pacific	82,742,780	154,639,600	71,896,820
St. Louis & San Francisco	96,507,400	57,947,000	†38,560,400
Wabash	92,400,426	138,486,312	46,085,886
Pere Marquette	26,327,210	68,675,000	42,347,790
New Orleans, Texas & Mexico	2,000,000	14,998,500	12,998,500
Western Pacific	75,000,000	75,000,000	....
Total	$379,460,339	$638,652,095	$259,191,756
Per cent of total capitalization	25.1%	42.8%	
Per mile of road owned	$15,000	$26,007	$11,007

†Decrease.

* In the total debt before reorganization the New Orleans, Texas & Mexico debt is excluded for the reason that this road was formerly a part of the Frisco System and its debt was included with that of the Frisco. For the same reason, the present debt of the New Orleans, Texas & Mexico is deducted from the decrease shown in the total debts subsequent to reorganization.

** Of this amount, $73,931,418 represents income bonds of the Frisco; $15,158,000 represents income bonds of the New Orleans, Texas & Mexico. The decrease in the total *fixed interest bearing debt is* $386,006,295, *or* 34.2%.

TABLE IV—PROPERTY INVESTMENT

Stock

	June 30, 1914	Dec. 31, 1917	Increase
Chicago, Rock Island & Pacific	$317,241,417	$342,042,874	$24,801,457
Missouri Pacific	316,491,948	349,970,918	33,478,970
St. Louis & San Francisco	297,640,522	335,965,549	38,325,027
Wabash	180,106,639	206,342,288	26,235,649
Pere Marquette	89,457,304	98,886,458	9,429,154
New Orleans, Texas & Mexico	*34,246,721	35,171,020	924,299
Western Pacific	**78,060,843	86,985,845	8,925,002
Total	$1,313,245,394	$1,455,364,952	$142,119,558

* Including securities of subsidiaries whose property is now operated as part of the System.
** On July 14, 1916, the investment was written down to $78,060,843 from $156,132,317.

TABLE V—NET WORKING CAPITAL

Road	June 30,1914	Dec. 31, 1917	Increase
Chicago, Rock Island & Pacific	$1,214,666	$9,250,398	$8,935,732
Missouri Pacific	350,450	7,663,939	7,313,489
St. Louis & San Francisco	*7,453,689	2,242,634	9,696,323
Wabash	1,246,805	2,548,021	1,301,216
Pere Marquette	*13,699,366	3,225,885	16,925,251
New Orleans, Texas & Mexico	*2,963,033	3,045,901	6,008,934
Western Pacific	*24,800,665	13,678,664	38,479,329
Total	*$46,104,832	$41,655,442	$87,760,274

* Deficit

fairly illustrative of the tendency which we have indicated, the abnormally high cost of operation in 1917 for all roads caused the transportation ratio of our group of roads for that year to rise from 32.8 per cent. to 36 per cent. As compared with statistics of American railroads as a whole this showing is relatively quite favorable.

Burdens of Debt

Passing from the operating figures to financial considerations, we find that the road in receivership is suffering in almost every case from the burden of too great a debt.

In recent reorganizations this condition has generally been met squarely, and the funded debts have been pared down to an amount where the interest charges can be carried without difficulty. At the same time, the stocks have been added to, so that we find a much improved balance funded debt and stock, as compared with the lop-sided relations which obtained before. Table III shows the changes made in the capitalization of those companies whose reorganizations have been completed.

This scaling down of the funded debt has immeasurably strengthened the credit position and financial integrity of these roads. From the investment standpoint, their securities are on an absolutely different plane from their pre-reorganization status, and the greatest single factor in this transformation is the reduction of debt shown in the table.

At the same time that the debts have been brought down, the property values which secure them have been increased through the expenditure of sums raised in reorganization for additions and betterments. We have, therefore, an increased base of tangible assets to support a smaller debt structure. The improvement in credit position comes from both sides. In Table IV we present the property investment figures of these roads as of June 30, 1914, compared with those of December 31, 1917.

Not only have these reorganized properties had considerable sums put into fixed assets, but large amounts have also been kept in liquid form as working capital. Adequate current funds are always lacking in the road entering receivership, for it is, of course, the lack of ready cash with which to meet its current obligations, or security maturities, which forms the immediate cause for a receivership. The reorganized company must start out with this condition fully rectified, and this is one of the first considerations which reorganization managers keep in mind. How successful they have been with the roads under discussion appears from Table V.

It is not to be inferred that all of the gain in working capital represents new cash, for part of it represents the complete or partial extinguishment of current liabilities through compromise or foreclosure. The change does, however, truly indicate the improvement in the working capital of the roads.

(To be continued.)

MARKET STATISTICS

			Dow Jones Avgs.			50 Stocks			Breadth
			40 Bonds	20 Inds.	20 Rails	High	Low	Total Sales	(No. issues)
Monday,	July	1....	76.68	81.81	82.67	72.82	79.55	454,100	160
Tuesday,	"	2....	76.69	82.57	81.98	82.44	71.62	364,900	167
Wednesday,	"	3....	76.68	82.49	82.75	72.24	71.87	342,400	167
Thursday,	"	4....	MARKET CLOSED; FOURTH OF JULY.						
Friday,	"	5....	76.69	82.96	83.16	72.55	72.11	281,000	143
Saturday,	"	6....	76.78	83.20	83.10	72.78	72.45	176,100	160
Monday,	"	8....	76.65	82.60	82.83	72.68	71.91	388,700	166
Tuesday,	"	9....	76.65	82.76	83.31	72.57	72.11	252,100	168
Wednesday,	"	10....	76.66	82.09	83.31	72.62	72.06	266,700	169
Thursday,	"	11....	76.76	81.09	82.76	71.92	71.22	608,500	179
Friday,	"	12....	76.69	81.23	82.75	71.78	71.45	460,200	153
Saturday,	"	13....	76.70	81.15	82.81	71.69	71.55	100,200	117

BUSINESS AND FINANCE SERIES

No. XIII. PART II.

"Smelters" and U. S. Smelting & Refining

Their Many and Serious Problems—Have They Passed the High Water Mark of Earnings?—Investment Position of Bonds and Stocks

By WALTER C. WHITE

INCREASED costs, as pointed out in our last issue, are now bearing with special severity on the smelting and refining industries. In considering the smelting and refining issues the general public often fails to remember that in addition to the actual operations of smelting and refining are the subsidiary considerations of shipments of raw materials and supplies, i. e., freight rates, and the very important factor of efficiency or inefficiency of labor. The latest increase in freight rates, for instance, has cut deeply into the profits of the mining and smelting companies.

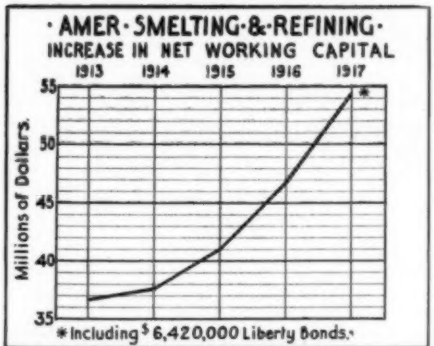
In order to make good recoveries and good profits, a smelter or a refinery must have a steady supply of raw materials and must continuously employ the same force or crew of workmen. Anything which upsets or disturbs such continuity of operation affects profits correspondingly. Speaking of the present situation a man of large affairs in the smelting industry said to THE MAGAZINE OF WALL STREET:

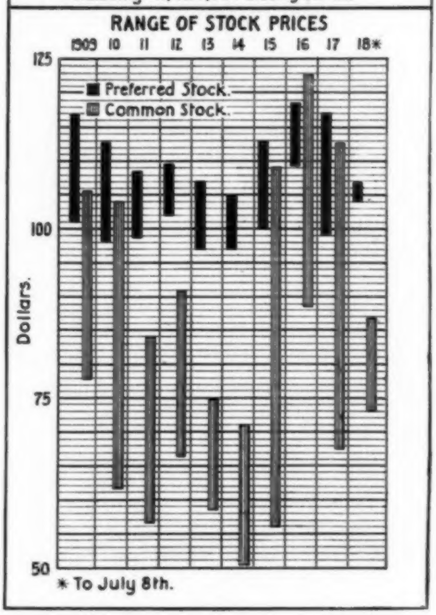
"During the last four years the plants have been at the mercy of the carriers. Unexpected heavy deliveries of raw material have been dumped upon them, and also heavy shipments have been suddenly required, which has brought with it heavy losses since extra men must be obtained at no matter what cost or else heavy damages paid for delays. Not only has the cost of labor advanced, but the worst is that labor has become so independent that its efficiency has decreased to such a point that no smelter or refinery can know from its cost of one month what the costs for the succeeding months may be. The costs in accumulating and transferring materials from point to point in the works during the last four years have been of moment, and often times the loss has been not only a loss of interest and the cost of labor, but a general disorganization of operations because cars, labor and supplies were not obtainable when the demand for them arose. The cumulative effect of all the troubles has been that the smelters and refineries have not worked at all times at capacity, and their efficiency has been much below normal, all of which is reflected in the balance sheet.

"An item of profit and loss which must be considered is the metal risk, or the profit or loss which has resulted through differences between what has been paid for metals in ore or blister and the price which was realized in selling. It is the custom in ore and blister copper contracts to specify that the purchases are made on market prices prevailing over a certain term or at a date. The recovered silver and copper are sold afterward. They cannot usually be sold when the ore or blister is received, because there is not always a buying movement, which is usually spasmodic. In order to avoid the metal risk refineries and smelters employ selling agencies, or else sell for account of their large customers. The small customers or clients are not represented by selling agencies, and the smelter takes the metal risk. In the case of advancing markets the gain from difference between prices paid and received for copper and silver is often large, and at such times the profits shown as gained by the smelter or refinery are large, but on declining markets the reverse happens. This may account for the variations in earnings from year to year of the different companies."

Few persons, I think, realize the great volume of the business of the American Smelting & Refining Company. The Table which accompanies this article and which shows the company's metal products for 1916 and 1917, gives some idea of the company's business. On December 31 last, not including Mexico, the company had nearly

25,000 employes and a payroll of approximately $25,000,000 annually. Last year it smelted nearly 6,000,000 tons of ore, refined 706,975 tons of bullion, consumed 787,890 tons of coal, 592,765 tons of coke, 1,560,535 barrels of fuel oil, and more than three billion feet of gas. Ore mined totaled





2,318,925 tons, coal mined 259,499 tons, and coke produced 186,107 tons. In freight rates alone the company has paid upward of $100,000,000 yearly. The matter of operating costs, freight rates, etc., is therefore a matter of great concern to an organization of this size.

A Guggenheim Family Affair

The "A. S. & R.," as it is colloquially known, is strictly a Guggenheim family affair. It would be interesting to go back to the early 80's when the Guggenheims were coming into prominence, and figure out what percentages the present capitalization represents upon the moneys originally invested. That is the only way one could determine how much water was originally injected into the company and how much H_2O still remains in the common stock. The present company was incorporated in 1899, when watered capitalization was the order of the day and A. S. & R. followed the custom of the times to the fullest extent. Of late years, since "Smelters" became less of a market football, there has been a serious attempt to back up the common stock with real assets through more liberal depreciation charges. Had the company followed the example of the Steel Corporation in this respect the common now would undoubtedly be represented by $100 worth of assets or better for every $100 par of stock. But the lure of dividends has been more potent than the abstractions of real and book values and the results are shown in the relative market prices of the securities of these two companies.

Nevertheless A. S. & R. has been a big earner as shown by the following tabulation of earnings and dividends paid on the preferred and common stocks for the last 11 years:

	Earned on Pfd.	Paid on Pref.	Earned on Com.	Paid on Com.
*1907.....	14.0	7	7.0	7
*1908.....	14.7	7	7.7	4
*1909.....	14.0	7	7.0	4
*1910.....	13.3	7	6.3	4
1911.....	22.9	7	10.9	4
1912.....	23.5	7	11.4	4
1913.....	19.5	7	7.4	4
1914.....	18.5	7	6.5	4
1915.....	28.8	7	16.8	4
1916.....	46.5	7	31.7	5½
1917.....	40.1%	7%	24.1%	7%

*Years ended April 30, others December 31.

The year 1916 was the company's banner 12 months, from the viewpoint of net profits, although operating profits were larger last year. But corporate taxes increased nearly $3,000,000 and depreciation was increased approximately the same amount, so that the ratio of net income to gross income dropped from 82.7 per cent to 63.5 per cent.

Notwithstanding, 1917 was the second best year in the history of the company.

Current Earnings

To venture a hazard as to what the current year will show in the nature of net profits would be to class one's self as a mere guesser. The writer talked with officials of the company who frankly stated that while there is no reason to expect that the company will fail to make substantial profits, it is a foregone conclusion that such profits will not equal those of 1916 or 1917.

disastrous loss, being faced with constantly increasing labor demands, higher prices for all materials and very unfavorable smelting rates. In some cases mines have realized that if they insisted on their contracts it would simply mean bankruptcy of the smelters and utter disorganization of the smelting industry, so that more liberal concerns have voluntarily revised the terms.

"On the other hand, there are others who insist on their pound of flesh, and it will probably need intervention by the Government to bring them to a realization of the untenable conditions in the smelting industry."

AMERICAN SMELTING & REFINING'S METAL PRODUCTS

	1917	1916
Ounces gold produced	2,496,693	2,662,011
Ounces silver produced	69,841,061	71,868,451
Ounces platinum and palladium produced	1,597	868
Tons lead produced	275,266	279,144
Pounds copper produced	848,888,000	789,438,000
Pounds best select copper produced	68,086,000	....
Pounds spelter produced	52,522,000	47,807,547
Pounds nickel produced	682,715	1,224,328
Pounds tin produced	12,130,000	4,522,000
Pounds sulphuric acid produced	66,174,000	25,842,000
Pounds arsenic produced	9,132,000	9,090,000
Pounds copper sulphate produced	7,598,000	13,046,000
Pounds by-product metals	4,131,709	5,671,827
Pounds copper and brass manufactured products	39,767,274	31,597,489
Pounds test lead and litharge sold	426,472	417,898
Number loaded cartridges sold	14,180,000	15,338,000
Pounds sheet lead, pipe, etc., sold	13,678,245	21,713,331
Pounds mixed metals sold	5,188,045	2,831,617

The facts of the case are that the serious factors of higher costs, taxation, higher freight rates and labor difficulties did not begin to assume serious proportions until the second half of 1917, and it was not until January, when many old smelting contracts expired and new ones were entered into, that the full effects began to be felt.

In our last issue Mr. E. G. Hothorn, who has many years practical experience in the metal business, said in regard to increased costs:

"One important factor which today has to be taken into consideration in all smelting operations is the steadily increasing cost of operation, which amounts now to at least 50 per cent, if not 60 per cent, increase compared with the first half of 1914. This advance in the cost is constituting a very heavy burden for the smelting industry, notably copper and lead, on account of the custom of making long-time contracts, extending in some cases 5 to 10 years. Consequently a number of larger plants have been operating at a

This is no exaggeration of the situation and while the American Smelting & Refining Company, on account of its size and the strategical position it holds in the industry, will not be as seriously affected as many other companies, nevertheless it will have to bear its shares of the burdens of the situation.

One side light on mounting costs gives a clue to the entire situation. Last year A. S. & R.'s average wage for an 8-hour day was $3.31, as compared with $2.70 in 1916. This was an increase of approximately 22 per cent and of course at the present time the percentage of increase is much greater.

Investment Position of Securities

Admitting that it is impossible to forecast the 1918 earnings of the American Smelting & Refining Company at this time, owing to the complicated character and rapidly changing conditions in the smelting and refining industry, it becomes necessary to re-

gard its security issues ultra conservatively.

There can be no question as to the soundness of the company's first mortgage "A" Sinking Fund 5s, due April 1, 1947. They are amply secured, but at their present price of 88 net only 5.6 per cent to the investor. They are taxable and are redeemable at par on or after April 1, 1930. There are other available bonds equally sound and offering higher yields and more in the way of profits through nearer redeemability or convertibility features.

The preferred is in about the same position as the bonds in regard to security and yield. The very large earnings available for dividend purposes and this issue's long and unbroken dividend record entitle it to a high standing, but its yield of 6.4 per cent at 109 must be regarded as only moderately satisfactory for a stock of this class in times like the present.

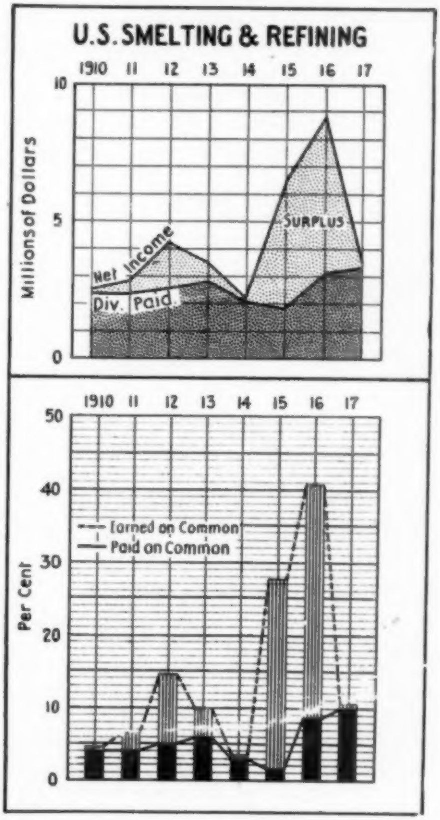
The common is not without speculative attractiveness. While there may be a further "sentimental" decline on account of the business and financial difficulties incident to the smelting and refining trade, it is the writer's judgment that the issue has pretty well discounted unfavorable factors. Even at the worst it seems only remotely in the realms of probability that the company will not earn and pay the present common rate this year. The 26c copper price will enable the copper producers to do better by the smelting companies, and steps to bring that about are being taken. The writer believes that when the smoke clears away the company will show a very substantial margin earned above common dividend requirements at the end of the year. The common stock should be bought on sharp declines in the general market.

U. S. Smelting & Refining

United States Smelting, Refining & Mining's drop of approximately $4,000,000 in operation income during 1917 makes a sorry contrast with American Smelting & Refining's $1,500,000 increase in operating profits for the same period. The annual statement of U. S. Smelting does not give a very satisfactory explanation, for although President W. G. Sharp stated:

> "During the year the output of all metals produced by the company has been maintained or increased, with the exception of zinc and gold. Average prices realized for the year were also maintained or increased except in the case of zinc. The increased cost of production, however, of each of the metals has not only offset any increase in average prices realized during the year, but has largely offset all the increase in price since the pre-war period. These increased costs are mostly due to increased cost of labor and material used in our mines and plants and to higher prices paid for custom ores."

It would seem that if the U. S. Smelting & Refining was such a sufferer from increased costs that American Smelting & Re-



fining would have also been measurably hurt. On the contrary, American showed the greatest operating profits in its history.

The last line in President Sharp's statement, where he speaks of custom ores, is perhaps the real answer to the problem. U. S. Smelting is a heavy buyer of metals in

ores. Oftentimes the technical position of the metal market precludes selling against ores purchased. If the next move in the metal market proves to be upwards, the company makes large profits and, conversely, its profits are wiped out if a declining metal market is encountered. Companies which own their ore supplies obviously are not confronted with this problem, as with them it is a case of degree of profits rather than that of actual losses on ores handled. It will readily be perceived how the price regulation of last year and voluntary agreements with the Government had an adverse effect upon U. S. Smelting's earnings.

The company's earnings on its stocks during the last 10 years have shown considerable fluctuations, as shown by the following tabulation:

Year	Earned on Pfd.	Paid on Pfd.	Earned on Com.	Paid on Com.
1908	12.4%	7%	7.5%	4%
1909	12.9	7	8.1	4
1910	10.2	7	4.4	4
1911	11.6	7	6.4	4
1912	17.4	7	14.4	5
1913	14.7	7	10.0	6
1914	9.3	7	3.2	3
1915	27.1	7	27.8	1½
1916	36.6	7	40.9	8½
1917	14.4	7	10.2	10

U. S. Smelting has $12,000,000 10-year 6 per cent convertible notes due Feb. 1, 1926, outstanding and bonds of subsidiary companies totaling $503,700. There is $24,317,000 7 per cent cumulative preferred stock outstanding and $17,556,000 common stock.

Earnings and Prospects

Last year the company produced more than 13,000,000 ounces of silver, and the present high price of the white metal is very advantageous. It is expected that this year's production will exceed that of 1917 by several millions. On the other hand, the smelting end of the business in cases where the company is tied up with long-time contracts and especially the refining end, where long-term contracts are most customary, is far from satisfactory. It is expected that it will be possible, as in the case of American Smelting & Refining, to readjust contracts which now show losses, but this favorable development can only be hoped for and not regarded as certain.

The company's convertible 6 per cent notes selling at around 90 yield 6.6 per cent. This issue is more or less inactive, and while it is sound enough for a business man's investment, the present price and yield does not entitle it to be classed among the "bargains" in this type of security. The notes are convertible into common stock on the basis of $75 in notes for each share of stock (par $50). The common, therefore, would have to sell above $75 to make the convertible privilege valuable, and at present prices of around 43 it appears that the common had a long way to go before the convertibility feature becomes of interest.

The preferred stock at about 44 looks cheap. The 10-year annual average earned on the preferred is 16.7 per cent, which includes some of the poorest as well as the best years. This is more than twice the annual dividend requirements each year. Paying 7 per cent on a par of $50 the preferred at 44 yields nearly 9 per cent, which is a very satisfactory yield, taking into consideration the dividend record and margins of safety on this stock. It has never performed spectacularly market-wise, but for the business man looking primarily for yield, it has attractiveness.

For the same reason that A. S. & R. common is a speculation, the common stock of U. S. Smelting must be regarded as being very much in the speculative class at present. It has this advantage, however, that the unfavorable factors affecting the company's business have been expressed in terms of income and the issue may, therefore, be assumed to have fairly well discounted a changed situation. Earnings this year are reported to be running at a rate better than $10 per share or twice the common dividend requirements. The issue has sold as low as 36 this year, and in view of the present uncertain tendency of the general market the purchaser would do well to wait for a dip in its quotations rather than to purchase at its present price of 43.

I am not bound to win, but I am bound to be true. I am not bound to succeed, but I am bound to live up to what light I have.—*Abraham Lincoln.*

How Diamond Match Solved Its War Problems

Potash Troubles Successfully Met—Not Dependent on Foreign Countries for Raw Materials—Liberal Depreciation Reserves—Increasing Earnings

By J. H. WESTCOTT, Jr.

MANY years ago there emigrated to the banks of the Brandywine, in Delaware, two men who founded separate industries which were to become among those of first importance in this country.

One of these men was from France, du Pont de Nemours by name. He had been a student of Lavoisier in France, who had invented some improvements in powder manufacture and he brought the knowledge of powder making with him. DuPont's powder works were founded in 1802 and tradition tells us that wagons filled with the old black powder were loaded at Wilmington and rushed across Pennsylvania to Lake Erie in time for Commodore Perry to win his famous victory in 1813. No one need be told of the important work of the DuPont Company in the present death struggle between Democracy and Autocracy.

The other pioneer was an Englishman, the elder Courtney. He brought the secret of the match compound and knew how phosphorus could be prepared so that it would be ignited by friction. Prior to his arrival brimstone matches were the principal ones made. But Courtney possessed the secret of the parlor match and with the aid of Swift, started the Swift & Courtney Company at Wilmington. Their product took its name from the little Diamond state and became known as the Diamond Parlor Match, and was the best match made at that time. The elder Courtney was jealous of his secret and compounded the mixture until shortly before his death.

Phosphorus Troubles

One of the ingredients of the match head compound was white phosphorus. This affected some of the workers in the dipping rooms and caused phosphorus necrosis of the jaw bone, a very serious and loathsome disease. Diamond Match was among the first companies to provide proper ventilating and other facilities, which prevented this disease to a certain extent.

In its efforts to eradicate it entirely, the company spent a large sum to acquire the exclusive foreign rights for the use of the sesqui sulphide of phosphorus, the best known substitute for white phosphorus. Its use eliminated the occupational disease. In 1910, after the Federal Government had passed a law prohibiting the use of white phosphorus in match making the company voluntarily surrendered its patents to the United States Patent Office for cancellation so that all manufacturers could use this form of phosphorus without cost.

Potash Troubles

In the evolution of the industry, chlorate of potassium, obtained from Germany, became a necessary ingredient in the match head compound. In 1914, the price was $35 a ton and advanced to approximately $470 in 1916. The available supply here was reduced to a few thousand tons and the situation became very serious. But the company met the issue in its characteristic and energetic manner. A plant was constructed at Wilmington, Cal., to extract potash from a seaweed kelp. It also built one at Lawrence, Mass., and obtained potash from the waters used for washing wool. A subsidiary, the Salt Lake Chemical Company, was formed to extract potash from the waters of the Great Salt Lake. Each plant was operated successfully.

Their cost was $400,391 up to Dec. 31, 1916. This was not considered a permanent investment as these plants might become valueless after the war. So the company deducted the cost from 1916 earnings. However, some additional sums, expended in 1917, have not been written off. The company is now entirely independent of any

foreign country for the materials necessary in the manufacture of matches.

Plant Investment

The company's facilities for match making, including lumber and chemicals, have kept pace with the demand for its products. Liberal expenditures for plant improvement and maintenance have been made in order to insure the high standard of its products. The older parts have been replaced by modern construction embodying the latest and most improved devices known in the industry. Much new construction has been added and is reflected in its plant investment account, which was carried at a valuation of $4,022,201 in 1911.

A gradual increase has taken place (except in 1912), until it amounted to $5,801,297 on Dec. 31, 1916. On Dec. 31, 1917, it increased to $7,518,411 by reason of the construction of its new plant in Savannah, Ga., and additions made to other plants for the manufacture of Swedish matches. Prior to the war, Diamond Match had imported them to supply its customers. But this source was cut off and the company found it necessary to manufacture them.

Properties Owned

The company owns match factories located at Oswego, N. Y.; Barberton, O.; Oshkosh, Wis., and Chico, Cal. The new plant at Savannah, will probably be in operation this year. It also owns a machine shop at Barberton, O., a paper mill at Southford, Conn., block and shook factories at Athol, Mass., and Biddeford, Maine, together with plants employed in lumbering operations in California consisting of saw mills, power plants, logging railroads, equipment and rolling stock. It operates twenty-five retail lumber yards in California.

The company owns 180,000 acres of pine lands in Maine, Massachusetts, New Hampshire, Vermont and California which contain about 2,600,000,000 feet of timber. It conducts selling branches in New York, Boston, Chicago, St. Louis and San Francisco and is also interested in the match business of Great Britain and Peru.

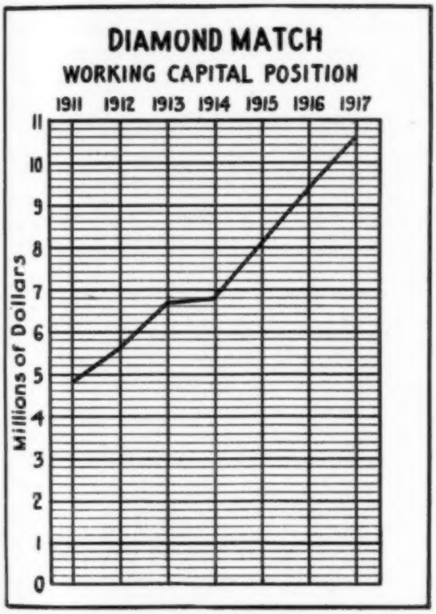
The outstanding capital stock is $16,965,100 and there is no funded debt. The balance sheets are shown in table I.

There is no doubt that the patents, trade marks, and good will of this company are of a very substantial value. These intangibles were appraised on Dec. 31, 1906, at $5,917,370 at which sum they were carried on the books. They have now been reduced to $1, in keeping with the conservative policy of other very high class companies. The increase in net working capital is shown by the graph.

TABLE I—DIAMOND MATCH BALANCE SHEETS

	1913	1914	1915	1916	1917
ASSETS					
Total prop.—less res. for deprec.	7,847,276	7,674,097	7,449,770	7,808,653	9,219,971
Patent rights, trademarks, etc....	2,500,000	2,500,000	2,000,000	750,000	1
Deferred charges to operations...	171,737	128,885	49,002	46,530	132,959
Inventory	4,704,776	5,189,171	4,768,613	4,808,312	9,202,044
Notes receivable	348,945	442,992	159,683	321,174	144,997
Accts. rec. (less reserve)	2,054,805	1,769,546	1,922,323	1,913,477	1,763,160
Funds for interest coupons	11,631	9,570	....	....	....
Cash in banks and offices	1,658,190	1,077,233	1,843,972	2,685,832	1,135,668
Total assets	$19,297,363	$18,791,498	$18,193,365	$18,333,978	$21,598,801
LIABILITIES:					
Capital stock	$16,090,600	$16,090,600	$16,965,100	$16,965,100	$16,965,100
Ten-year 6% convertible deben...	1,328,000	1,295,700	....	....	....
Accounts payable	725,763	287,255	475,451	232,992	487,275
Interest and coupons due	14,951	12,869	....	....	....
Accrued taxes (estimated)	73,695	78,979	86,886	95,828	1,214,332
Pay rolls	95,616	51,649	70,516	54,037	63,627
Reserves	104.308	94,184	140,679	465,965	2,120,406
Surplus	864,428	880,320	454,730	520,056	748,060
Total liabilities	$19,297,363	$18,791,498	$18,193,365	$18,333,978	$21,598,801

The company does not report its gross sales but they have increased steadily. Its banner year was 1917 and in keeping with its first position in the match industry. Earnings from all sources, before deducting reserve, renewals, etc. for 1917 amounted to $5,637,925 as compared with $3,996,697 in 1916. Reserves, renewals, and depreciations were $429,440. The prevailing high cost of materials and the need of carrying additional stock of certain necessary commodities in order that continuous operation might be safeguarded, caused an increase in the value of inventories from $4,808,311 on Dec. 31, 1916 to $9,202,044 in 1917.



The company deemed it advisable and conservative to charge $1,700,000 against 1917 earnings, equivalent to 18.5 per cent. of the total inventory value as of Dec. 31, 1917 and equal to $10 a share, as a reserve against inventories.

After a further reduction for repairs, renewals and depreciations, net earnings were $3,508,485 as compared with $2,851,011 in 1916. From this was deducted a reserve of $1,103,098 for U. S. Government taxes, equal to $6.50 a share, as compared with $70,890.74 in 1916. The net was $2,405,386.94 in 1917 as compared with $2,780,120 in 1916. But in last year's statement there was added the profit from the sale of 81,000 of its 181,000 ordinary shares in Bryant & May, Ltd., which amounted to $270,475, making the total net income $2,684,862.

From this was deducted for depreciation reserve $180,000 and dividends of $1,526,859. There was carried to the surplus account $978,003.25 which added to the surplus of Dec. 31, 1916, made $1,488,059. Its net surplus was $748,060 on Dec. 31, 1917 and total reserves not shown in Table I amounted to $2,120,406.

That its 1916 and 1917 earnings were not the result of war prosperity is shown by its prior earnings. The balance available for dividends averaged $1,813,435 for 1911 to 1915 inclusive.

The percentage of earnings, dividends and market action of the stock are shown in Table II.

TABLE II—DIAMOND MATCH EARNINGS, DIVIDENDS AND PRICES

	Per Cent Earned	Divs. Paid	High	Low
1910......	11.56	6	127	82½
1911......	12.65	6	110¾	92½
1912......	13.19	7	111¾	103
1913......	11.04	7	110¼	90
1914......	9.59	7	102	91½
1915......	7.46	7	121½	90
1916......	15.50	7¾	142½	102
1917......	13.12	9	132⅜	92

The stock is a safe investment issue. In many respects it is as attractive as first class bonds. The company has been well managed and is a seasoned and consistent dividend payer. It should continue to pay dividends at or around its present rate in the future. There is no reason to doubt that its surplus will grow in the coming years, as there are no more intangibles to be written off. At around 112, it appears to be an attractive purchase, although it is selling somewhat higher than the stocks of some other companies paying the same rate of dividends. But it must be remembered that Diamond Match has no funded debt while these other companies have. It is therefore more attractive as an investment issue. It has the speculative possibility of higher dividends in the future and on a return to normal interest rates it should sell higher.

Brighter Outlook for Paper Stocks

Upward Readjustment of Fixed Price of Print Paper Likely at End of Month—American Writing Paper Turns Corner—Preferred an Attractive Speculation

By PRESTON S. KRECKER

INTEREST in the market position of the paper stocks has been maintained at an unusually high pitch through the publicity attending price-fixing activities of the War Industries Board as well as the inherent relation between earning power and fixed prices. While International Paper has been in the spotlight more frequently than American Writing Paper, these issues as a rule are sympathetically affected so that discussion of the one naturally invites attention to the other. But it should be understood at the outset that the two companies are not competitors and what affects the one does not necessarily have any bearing on the other.

Prior to the ruling on June 20 fixing the price of news-print paper at $3.10 a hundred pounds, speculative interest in International Paper stocks had run high because it was believed that the Government would certainly fix the price at least as high as $3.50 a hundred, which would have represented an advance of half a cent a pound over the previously fixed price effective from Jan. 1 to April 1, inclusive, and great was the disappointment of both officials and stockholders when the modest increase of 10 cents a hundred was allowed. However, the entire price question has been reopened and a hearing will be granted to manufacturers of news-print paper on July 29, when they will have opportunity to show cause why the present fixed price is too low.

Confidence is expressed by officials of the International Paper Co., which is the largest manufacturer of print paper, that the War Industries Board will grant a further advance. They believe that after it has heard their arguments the board will raise the price at least to $3.75 a hundred pounds.

A Crisis in the Industry

It is not exaggerating to say that a crisis in the print-paper industry was precipitated by the decision to fix the price at $3.10, because scarcely two weeks later the National War Labor Board granted practically 90 per cent of the demands of the labor employed by the paper manufacturers, which included a wage advance of 10 per cent, an 8-hour day and other concessions involving higher cost of manufacture upon which the War Industries Board had not reckoned when it fixed the price. Moreover, the manufacturers expect to be able to show that consecutive railroad freight rate advances have amounted to 53 per cent and will eat a large hole in earnings. The extent to which freight rates enter into the cost of paper is scarcely appreciated by the public. Four tons of raw material must be shipped into paper plants to every one ton of finished product that goes out, for it takes two tons of cord wood, one ton of coal and one ton of miscellaneous raw materials to make one ton of paper.

Wage increases granted June 29, officials figure, increased the cost of making a ton of paper by $2.50. Freight rate increases this year add a further increase of $3.50, while the cost of cord wood has advanced 27 per cent in the last six months. The average cost of a cord of wood in 1917 was $16.02, but today it is $20.20. Paper manufacturers estimate that, with these increased costs, a fixed price of at least $3.75 a hundred pounds is essential if the company is to be permitted to make that normal profit which the Government has declared corporations are entitled to make.

As the continuation of the present fixed price would be ruinous, manufacturers are confident that their views will prevail with the War Industries Board. Talk that plants would be converted into other uses and the paper industry moved to Canada unless a further increase is granted is premature, to say the least, according to prominent officials of the International Paper Co. They feel that they owe an obligation to their clientele which must be fulfilled, and they rely

confidently on Federal aid to make good.

International Paper

It is quite certain that the International Paper Co. this year will not earn anything like the large profits which accrued from operations last year. It produced during 1917 no less than 390,179 tons of print paper, on which average profits were $7.50 a ton after tax deductions, averaging about $34 a share on the $19,750,000 common stock outstanding. Output of paper this year will be less, primarily because production of paper at the Niagara plant of the company was stopped by the Government on the ground that the company was consuming hydro-electric power in an unessential industry. The output of that plant amounted to 50,000 tons a year. Still the plant is not entirely idle because the quick-witted management immediately converted it into a plant for the manufacture of ferro-silicon, an essential ingredient of steel required for war purposes. Another reason for reduced output is less efficient labor.

The financial position of the International Paper Co. has been strengthened by the policy pursued by the company of reducing the funded debt. It has retired $7,500,000 of its bonds in the last 14 months, which is approximately one-half of the entire bonded debt. In some quarters much disappointment was felt when the directors failed at their May meeting to authorize any dividend on the common stock, which was expected in view of the large surplus accumulated by the company. But a conservative course is obviously the best during a period when the Government is restricting prices of finished material while costs of manufacturing are continually advancing.

American Writing Paper

The situation of American Writing Paper is not analogous to International Paper. Whereas 1917 was the biggest year the latter company ever had, it was one of the poorest for American Writing Paper, which suffered severely from the chaos which prevailed in the market for high-priced paper. While gross sales of $15,019,564 were satisfactory, an enormous increase in cost of manufacture reduced net 1917 income to a paltry $150,287, compared with $2,524,378 the previous year. This income was equivalent to only $1.20 on the outstanding $12,500,000 preferred stock against $20.19 earned in the year 1916. The sharp slump in net earnings was due to the abnormal situation created by exhaustion of cheap cost raw materials which was accompanied by the relative weakness in the market for writing paper created by excessive overproduction in 1916. While raw materials increased 37 per cent. in 1917, the price of finished paper advanced only 20 per cent. and raw materials account for practically 70 per cent. of the cost of manufacture. Furthermore the volume of sales fell below 1916.

Various reasons, however, suggest the conclusion that American Writing Paper has turned the corner and is now headed for a more profitable year. The prices of finished paper have been readjusted to manufacturing costs and the general manufacturing situation has improved, because overproduction has been absorbed. Moreover, an internal shake-up has increased the earning power of the company. George A. Galliver, the new head of the company, has effected economies in both the purchasing and the sales departments of the company which are counted upon to save fully $500,000 a year in costs. Sales so far this year are running ahead of those of 1917. March reports showed a high record achievement of $1,500,000 in gross sales. The company has abandoned its old policy of being the first to fix prices. Under that policy its competitors adjusted their prices afterwards and frequently shaded those of the leading manufacturer. Now the American Writing Paper Co. pursues a waiting policy in publishing its price lists.

Five per cent. sinking fund bonds of a par value of $14,453,000 will mature in July, 1919, and it is confidently predicted by persons conversant with the affairs of the company that these bonds will be paid dollar for dollar when they fall due. Just now they are quoted at 85-86. The company, in spite of the sharp decrease in its net income last year, earned its interest charges three times over, which is a satisfactory record.

Stocks of the American Writing Paper Co. have been well bought of late and we regard the preferred, with its 124 per cent. of accumulated dividends, as a very attractive speculation at its present price of about 26.

Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS and are not to be regarded as RECOMMENDATIONS to purchase or sell.

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor.*

RAILROADS

BALTIMORE & OHIO—Contract for Erecting Plant—Contract has been awarded by company to Westinghouse, Church, Kerr & Co., of New York, for construction of large erecting shop at Cumberland, Md. Cost of the entire plant will be about $1,200,000. Besides taking care of repairs and rebuilding of motive power of Baltimore & Ohio road, plant will also be employed for like purposes on engines of Western Maryland Railway, Cumberland & Pennsylvania R. R. and other lines under same Federal management as Baltimore & Ohio.

BANGOR & AROOSTOOK—Report—Operating income for April, 1918, was $139,-675, as compared to $164,732 in 1917; total operating income for four months ended April was $213,333 as compared to $522,658, same period in 1917.

BOSTON & MAINE—Protective Committee Formed—Protective committee for Boston & Maine bonds, debentures and notes had been appointed, consisting of Pres. Brock, of Home Savings Bank; Pres. Bancroft, of International Trust Co.; E. Elmer Foye, trustee of Wildey Savings Bank, and of E. Elmer Foye & Co.; Edwin U. Curtis, trustee of Institution for Savings in Roxbury and its vicinity, and Treas. Stratton, of Worcester County Institution for Savings. Deposits of all issues are being made at International Trust Co., Boston.

ROCK ISLAND—Report—Gross income for May was $7,473,838, an increase of $451,197 over 1917. Gross for five months was $36,-539,941, an increase of $3,184,845 over 1917. Net operating income for the period was $4,348,490, a decrease of $1,818,295 over 1917.

COLORADO & WYOMING—Report—Operating income for April was $26,630, as compared to $32,838 in 1917. Operating income for four months ending April was $76,342, as compared to $155,717 in 1917.

DENVER & SALT LAKE—Protective Committee Formed—Protective committee has been formed in interest of holders of company's 5% equipment notes, dated March 1, 1913, and a 6% equipment certificate dated July 1, 1915. The Commercial Trust Co., of Philadelphia, has been designated as depositary, and Empire Trust Co. agent for depositary. Noteholders are requested to deposit their holdings before July 15.

ERIE—Bond Issue Authorized—Public Service Commission has authorized company to issue $12,000,000 face value 6% 20-yr. series B refunding and improvement mortgage bonds under a mortgage dated Dec. 1, 1916, given to Bankers Trust Co., as trustees, to secure a bond issue of $500,000,000. Company also has been authorized to issue two-year notes up to $12,500,000, and for purpose of securing notes as shall run for less than one year, company is given permission to pledge $12,500,000 series B bonds authorized. Proceeds to be realized from the securities issue are to be applied toward reimbursement of treasury for expenditures made from income for capital purposes to Dec. 31, 1917, and for construction expenditures to be made in 1918. All expenditures for construction have been approved by Regional Director of Railroads, as necessary for efficient and economical conduct of road as a governmental agency. Improvements include terminals, cold storage plants, trackage, etc.

GRAND TRUNK OF CANADA—Loan of $5,000,000 Sought—Company has asked Government for a loan of $5,000,000 to complete line between Palmer, Mass., and Providence, R. I., which would give a fourth gateway into congested industrial district of New England.

ILLINOIS CENTRAL — Report—Operating income for May was $1,235,803, a decrease of $522,874 as compared to May, 1917. Operating income for 5 months ended May was $5,944,240, a decrease of $2,092,337 as compared to May, 1917.

LEAVENWORTH & TOPEKA—Right to Carry On Business—Kansas P. U. Commission granted this company right to do business and authority to issue $100,000 capital stock, of which $80,000 is to be used as purchase price for old railway company and balance for improvements.

MAINE CENTRAL—Report—Operating income for May was $179,592, a decrease of

$128,360 as compared to May, 1917. Operating income from first of year was $181,539, a decrease of $1,245,651 as compared to May, 1917.

MISSOURI, KANSAS & TEXAS—Report—Operating income for April was $1,420,210, as compared to $1,094,046 in 1917. Operating income from first of year was $408,794, as compared to $26,271 in 1917.

MOBILE & OHIO—Report—Operating income for April was $284,149, as compared to $256,361 in 1917. Operating income from first of year was $435,966, as compared to $1,048,792 in 1917.

NEW YORK CENTRAL—Petitions Denied—Public Service Commission has denied two petitions by company to take over jointly stock of certificate of necessity issued to Frontier Electric Railway Co. and authorizing Pennsylvania and Delaware, Lackawanna & Western Railroad companies to take over jointly stock of company and to operate Frontier line. A like petition filed by Erie Railroad was denied on May 16. Operation of frontier line by Pennsylvania and the Delaware, Lackawanna & Western railroads was urgently requested in Western New York to provide a new freight line along Niagara River.

PACIFIC & IDAHO NORTHERN—Out of Receivership—Road has passed out of hands of a receiver. Edgar M. Heigho, formerly receiver and general manager, having been elected president and general manager with office at New Meadows, Idaho.

PENNSYLVANIA RR.—To Make Improvements—Pennsylvania Lines West will make additions and install new equipment at its shops at Denniston, Ohio, to cost $2,000,000 to $3,000,000. These will include a new freight yard, and enlargement of roundhouse and shops. Much new equipment will be needed for extensions.

PHILADELPHIA & READING—Report—Receipts for May amounted to $6,919,461, compared with $5,887,225 for corresponding month of last year. After expenses of $5,672,086 profit in operating totalled $1,247,375, which compares with $1,669,941 for same period of 1917. Rent, interest, taxes, etc., were $882,500, leaving a surplus for period of $364,875. Receipts for first five months of current year amounted to $28,852,023, against $26,754,715 for corresponding months of preceding year. Expenses were $26,557,179, leaving profit of $2,294,845, which compares with $6,965,661, for first five months of 1917. Deficit after rents, interest, taxes, etc., of $4,412,500 amounted to $2,117,655, compared with a surplus for the same period of the year before of $2,803,161.

PHILADELPHIA & WESTERN—Report—Net earnings for May were $21,441, a decrease of $2,816 as compared to May, 1917. Net earnings for 5 months ended May 31 were $266,210, a decrease of $6,043 as compared to same period in 1917.

PITTSBURGH, CINCINNATI, CHICAGO & ST. LOUIS—Dividend Action Deferred—Directors, at their meeting on June 26, 1918, deferred action on dividends due Aug. 31, 1918.

READING — Report—Company reports for May receipts of $611,747, against $591,041 for same month of previous year. Expenses were $7,356, leaving profit of $604,390, an increase of $32,318 over May of last year. Interest and taxes (part of which are estimated) totalled $474,500, against $493,000 for same month of preceding year. Surplus for period was $129,890. Receipts for 5 months ended May 31, 1918, were $3,038,243, an increase of $102,432 over first 5 months of last year. After expenses of $49,687 profit was $2,988,556, which compares with $2,879,368 for corresponding period of 1917. Surplus amounted to $616,056, increase of $201,687 for same months year previous.

SEABOARD AIR LINE—Notice to Bondholders — Company, successor to Florida Central and Peninsular RR. Co., offers to extend $3,000,000 1st mtge. gold 6s, due July 1, 1918, to July 1, 1923, at interest rate of 6 per cent per annum, payable semi-annually on Jan. 1, and July 1, at office or agency of company, New York, present mortgage security of said bonds to remain unimpaired and has arranged with Guaranty Trust Co. of New York and The National City Co. for such extension. Holders of bonds, who desire to avail themselves of privileges of extending bonds, should deposit them before July 15, 1918, with Guaranty Trust Co. of New York, N. Y. Guaranty Trust Co., of New York, and National City Co. have agreed with company to purchase all bonds, holders of which do not desire to exercise privilege of extension at par upon delivery of said bonds at office of Guaranty Trust Co., of New York. No interest after July 1, 1918, will be paid on bonds not so extended. Before presenting bonds to Guaranty Trust Co., of New York, coupons maturing July 1, 1918, and prior thereto should be detached and collected in usual manner. Extension privilege applies only to holders of such bonds who shall deposit same with Guaranty Trust Co., of New York, on or before July 15, 1918.

ST. LOUIS-SAN FRANCISCO—Report—Net earnings for May were $1,006,813, a decrease of $420,922 as compared to May, 1917. Net income for 5 months ending May 31 were $3,327,532, a decrease of $2,426,827 as compared to same period in 1917.

VICKSBURG, SHREVEPORT & PACIFIC—Report—Total operating revenue for 6 months ended Dec. 31, 1917, were $1,227,478, as compared to $1,003,813 in 1916. The surplus for the period equalled $574,386, as compared to $452,268 in 1916.

AMERICAN CAN—Heavy Contracts— Has an enormous volume of business in shells for government. Success with its Russian shell contract put it in line for munition orders when United States entered war, and it was among first concerns awarded contracts for complete shell rounds. Its first orders were for 1,000,000 shells at $10.51 each. This was succeeded shortly by another considerably larger order, and subsequently by still larger orders. Company has for several years been manufacturing paper containers for various products. Its latest departure has been making paper cases for shells. Former practice in shipping shells to front was to put each in a separate envelope or container of tinplate to prevent rust or damage. Earnings of American Can have been growing for several years. Present prosperity while due in part to war was founded on a careful building up of resources over a period of years.

AMERICAN CAR & FOUNDRY—Report—Company reports a net before dividends for 1918 to April 30 of $11,281,742, as compared to $10,310,872 in 1917. Total surplus equalled $29,452,707, as compared to $26,820,956 in 1917. Rate of increase in the volume of business and increase in profits of company has been accomplished without any financing. Total capital surplus and reserve reaches very nearly $100,000,000, and net working capital, excluding reserves, amounts to $20,038,432. Company had on books on April 30 last orders to the amount of $290,000,000. There has been added to the reserve of dividends on the common capital stock $2,400,000, making total of $4,800,000, which will take care of 8% dividends on junior shares for two years.

AMERICAN SUMATRA—May Issue New Stock—Directors of this company have made application to Capital Issues Committee of this Federal Reserve district for permission to increase capital stock of corporation. Amount of increase in the capitalization of company has not been made public, officials of corporation maintaining silence on that point. It is understood new stock will be distributed to stockholders in form of dividend.

Company has $6,800,000 of common stock of $100 par value outstanding and $2,000,000 of preferred. Preferred stock is redeemable in whole or in any part at $110 and accrued dividends on ninety days' notice. Officials of company recently admitted that plans were on foot for retirement of outstanding $1,200,000 notes and preferred stock issue. It was stated unofficially at that time that retirement of these issues would be followed by an increase to $21,000,000 in common stock capitalization.

AMERICAN WOOLEN—To Enlarge Subsidiary—Will spend $100,000 in enlarging Globe Woolen Mills in West Utica. Work will begin at once and will result on practically doubling concern's capacity.

ARMOUR — Government Complaint — Federal Trade Commission, in its complaint against this company at Chicago, alleges it has reason to believe on information and belief, respondent has been and is now concealing its affiliation with Beyer Bros. Co. of Rochester, Ind., for purpose, intent and effect of stifling and suppressing competition in manufacture and sale, in interstate commerce, of dairy products.

Further charged that company has discriminated in prices offered or paid by it in localities where small competitors are engaged in business, higher prices in certain local areas being paid in these instances than are paid in other localities.

Complaint also charges respondent in certain local areas, by means of changing, manipulating and falsifying certain tests to determine amount of butter fat found in cream, has purchased butter fats, or cream, for prices, so high as to be prohibitive to small competitors in such areas.

BALDWIN LOCOMOTIVE—Completes First New Locomotive—Of 1,415 locomotives orders for which were let April 30 by Railroad Administration to Baldwin, American and Lima Locomotive Companies, first has just been completed by Baldwin works.

BETHLEHEM STEEL — Negotiating for Big Loan—Company has completed negotiations with a banking syndicate headed by Guaranty Trust Co. and Bankers Trust Co. for a loan of approximately $50,000,000 to provide additional working capital and make funds available to pay off next February $14,000,000 of $50,000,000 two-year notes that were issued in corresponding 1917 month. Balance of $36,000,000 will be met by the maturity of amount of British Treasury bills, which are now held as part of the collateral behind note issue.

It was said company thought it expedient to arrange for its big 1919 maturity at this time rather than wait until next fall, when flotation of another Liberty Loan is expected to practically monopolize money market. New working capital raised by projected financing will be used in completing new plants for government war work.

CORN PRODUCTS—Decrease in Operations—Operations in May were below the April showing. One reason was shut down of big Granite City, Ill., plant for ten days. Men struck for more wages. Conference was held between officials of company and representatives of workers. As result men were granted increase in wages and an eight-hour day with time and half for overtime.

Wages of workers in other Corn Products Refining plants have also been advanced. This means an increase in company's yearly payroll of at least $1,000,000, and will make a big inroad on surplus income.

CRUCIBLE STEEL—Awards Contract—Has awarded contract to W. H. & F. W. Cane, Woolworth Building, New York, for construction of a new one-story brick and steel rolling mill, to cost $500,000.

GOODYEAR TIRE—May Sales—Sales for month of May were $14,365,712, and were second largest month in history of company and comparing with high record of $14,881,933 sales in April. With May Goodyear completed seven months of its current fiscal year, during which period gross sales have aggregated $74,827,516 compared with $111,450,643 for entire 12 months of previous fiscal period.

GULF STATES STEEL—Report—Reports net operating income for May of $246,188, as compared with $402,536 in May, 1917.

MAXWELL MOTOR—Has Large Contracts—Company, with $75,000,000 government contracts is now at work on largest scale of public owned automobile company. Together with Chalmers it has just taken its largest order for rising $40,000,000. Like most business now going to Middle Western automobile companies it is for shell manufacture. As additional factory capacity will be required Government intends to finance a new plant in Detroit costing over $4,000,000.

PACIFIC MAIL—To Redeem Preferred Stock—At special meeting of stockholders of company it was decided to redeem $1,700,000 preferred stock outstanding on Sept. 1, at rate of 110. Following the stockholders' meeting, directors voted to offer 70,000 shares of common stock, at $25 per share, to common stockholders on pro rata subscription basis. Holders of common stock of record Aug. 5 will have right to subscribe to new stock, payment for which is to be made before Sept. 3.

REO MOTOR—To Do Government Work—Is about to start on Government work. At present it is producing about ninety vehicles daily, 35% being trucks. Within present month it is expected company will be busily engaged on caterpillar tractors. With beginning of present month, price of Reo four-cylinder passenger car was advanced $65, with more car and truck orders on hand than can possibly be delivered.

REPUBLIC IRON & STEEL—Retains Surplus—In view of proposed new war revenue measures, far sighted policy of management of Republic Iron & Steel Co. in retaining practically all of its surplus in past two years, rather than disburse it among shareholders, becomes apparent. For two years 1916-1917, Republic Steel showed a balance of surplus equal to $99.83 a share on common. Of that amount it paid to common shareholders only $7.50 a share, leaving an actual addition to value of $92.33 a share.

SEARS ROEBUCK — Report — Reports June sales as $12,464,660 an increase of $2,477,242 over same month in 1917. For the six months ending June 30, sales were $88,704,572 an increase of $3,811,135 over same month in 1917.

STUDEBAKER—Outlook Favorable—Company is assured of all shell business it can handle for next two years providing that war lasts that long. While actual shell contracts given company aggregate close to $20,000,000, its potential orders can easily run up above $50,000,000 in shell business alone. Government is building big shell plant for Studebaker and is bearing all expense. Type of shells to be machined by Studebaker is 105-millimeter variety.

Contract between Studebaker and Government for shell business stipulates new plant shall be turned over to company at end of war if company so desires.

UNITED CIGAR STORES—No Dividend Action—No action regarding common dividend had been taken. Dividend action may be expected, some time this month.

UNITED STATES RUBBER—Record Business—Has just completed largest six months' business in history of company. For half year ended July 1, sales are expected to show in the neighborhood of $110,000,000. Inasmuch as a final accounting will not be possible for a month at least, these figures, at best, are approximate ones.

Sales of $110,000,000 for six months' period are within $16,000,000 of year's business in 1916.

VIRGINIA-CAROLINA — Extra Dividends—Declared a quarterly dividend of 1% on common stock and extra dividend of 2%, payable in Liberty bonds; also regular quarterly dividend of 2% on preferred stock. This places common stock on a 4% basis, as compared with 3% heretofore. Common dividend is payable August 1, to stock of record July 15; extra payable October 1 to stock of record September 15, and preferred July 15 to stock of record July 8.

WESTINGHOUSE AIR BRAKE—Unfilled Orders—Company and subsidiaries have unfilled orders on hand for $28,000,000.

WORTHINGTON PUMP — Favorable Outlook—Strength in common stock is attributed in official circles to awakening appreciation of market's undervaluation of issue in view of its earnings and prospects. Based on total of unfilled orders, which aggregated $41,834,777 at beginning of year, registering an increase of no less than 450% over $9,234,721 of forward business on books at start of 1917, Worthington Pump's 1918 net profits should reach $50 a share for common stock, even though war taxes are substantially increased.

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before the earnings' columns indicates a deficit for the year in dollars per share.

INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.

Companies Which Have Reported for 1917.	Dollars Earned Per Share.						Present Div. Rate.	Recent Price.	Yield on Price.	
	1912.	1913.	1914.	1915.	1916.	1917.				
Allis Chalmers pfd	.....	4.77	—0.15	6.80	19.97	24.36	7	83	8.40	Large unfilled orders. Large surplus.
Amer. Agri. Chem. com	7.34	5.23	7.68	10.96	20.57	21.11	6	91	6.59	Semi-peace stock.
Am. Beet Sugar com	13.50	3.87	2.29	8.68	19.17	38.84	8	70½	11.35	Government price insures profit.
Amer. Can com	8.86	5.21	3.61	5.20	12.31	21.84	0	48	0.00	Very prosperous. Record output.
Amer. Car & Foundry com	2.46	4.10	5.53	0.77	2.39	27.36	8	85½	9.36	Record prosperity. Large government orders.
Amer. Cotton Oil com	6.49	3.38	1.98	7.05	6.99	4.56	4	41¼	9.70	Products in demand.
Amer. Hide & L. pfd	3.37	3.79	0.85	7.65	13.10	14.17	5	77¾	6.43	Earnings favorable.
Amer. Linseed pfd	—2.85	2.96	1.83	6.01	8.83	10.53	7	80	8.75	Earnings large. Out of debt.
Amer. Loco. com	0.47	17.74	1.30	13.00	36.07	21.81	5	67½	7.41	Government orders large.
Amer. Smelt. & Ref. com	11.47	7.47	6.51	17.15	31.79	24.14	6	79	7.59	Mexican situation satisfactorily settled.
Amer. Steel Foundries	4.53	6.01	—1.35	—1.20	19.89	24.49	7	69½	10.07	Dividend increase warranted.
Amer. Sugar Ref. com	5.34	—0.25	4.82	4.99	11.48	11.25	7**	112	6.34	Price restrictions. Company prosperous however.
Amer. Tobacco com	30.42	28.12	21.04	20.06	22.70	25.21	20	160	12.50	Margin over dividend good.
Amer. Woolen com	2.09	—9.89	—0.06	6.40	15.31	40.42	5	58	8.66	Late war bride. Strong position.
Amer. Zinc com	8.59	—4.65	1.82	109.65	187.48	21.78	0	19⅛	0.00	New copper price favorable.
Anaconda Copper	7.32	5.22	3.77	7.16	26.80	14.72	8	68	11.76	New copper price increases earnings.
Baldwin Loco. com	11.49	13.09	—5.25	7.14	6.09	40.22	0	91⅛	0.00	Large government orders.
Barrett Co. com	10.55	10.80	10.31	20.42	32.38	20.61	7	94	7.45	Strongly intrenched.
Bethlehem Steel com	6.86	27.45	30.59	112.49	286.30	44.20	10	82¾	12.09	Earnings excellent. New financing.
Burns Bros. com	.....	3.63	4.84	9.08	10.03	17.99	10	123	12.30	Earnings helped by high prices.
Butte & Superior	.....	3.47	5.21	33.47	30.58	.94	0	29	0.00	Removal of injunction helps.
Cal. Petroleum pfd	.....	11.59	11.36	6.15	8.07	11.61	7	60	11.67	Big improvement in earnings.
Central Leather com	8.58	5.18	6.41	10.82	33.14	30.41	5	70½	7.09	Government business.
Chino Copper	2.80	3.51	3.44	7.65	14.40	11.27	4	40¼	9.93	Output increased. New price favorable.
Col. Fuel & Iron com	3.93	3.21	4.79	4.58	5.96	11.15	3	48	6.67	Record working capital and surplus.
Continental Can com	.....	4.88	10.69	12.05	22.38	29.36	6	72	8.33	Government business helps. Increased production.
Corn Prod. Ref. pfd	6.43	8.68	9.26	12.64	17.76	38.05	7	42	16.47	Earnings exceptional; prospects encouraging.
Crucible Steel com	6.82	12.84	—2.94	5.39	45.89	42.13	0	68	0.00	Record earnings. Dividend expectations.
Cuba Cane Sugar com	.....	.....	.....	.....	17.36	.....	0	31⅛	0.00	Earnings improve greatly.
Distillers' Securities	1.71	1.17	2.28	4.64	4.10	14.83	2†	57	3.51	Brilliant earnings. Bone dry amendment unfavorable.

Cuba Cane Sugar com........	.....	.....	.....	.....	[illegible]	.....	[illegible]	[illegible]	[illegible]	Brilliant earnings. Bone dry amendment unfavorable.
Distillers' Securities	1.71	1.17	2.28	4.64	4.10	14.83	2§	57	3.51	
General Chem. com............	21.72	19.19	18.72	44.26	86.76	55.19	8	183	4.33	War earnings. Outlook bright.
General Electric	12.43	12.88	11.12	11.56	18.31	26.50	8	149½	5.35	Good business. Record sales.
Goodrich (B. F.) com........	3.34	1.11	4.12	15.68	12.76	14.49	4	45¾	8.75	Record business.
Great Northern Ore.........	1.75	0.71	0.54	0.70	1.30	.....	0‡	32½	0.00	Dividend payment resumed.
Greene Cananea Co...........	4.31	2.33	1.97	1.04	7.03	.....	8	44¼	18.08	Mexican situation improved. Copper price favorable.
Gulf States Steel com........	.....	.....	.....	10.17	28.77	32.76	10	86½	8.65	Tax burdensome.
Inter. Agri. Corp. pfd........	11.12	—1.24	0.65	—0.47	9.80	9.31	0	60¼	0.00	Financial outlook bright.
Inter. Har. N. J. com.......	.....	14.54	13.41	16.19	21.46	29.77	7	127½	5.50	A peace stock. Large business.
Inter. Mer. Mar. pfd.........	7.32	4.45	—0.58	26.26	42.10	.....	6	102⅞	5.83	Prospects good.
Inter. Nickel com.............	6.57	2.95	2.80	3.33	6.70	7.78	4	30¾	13.01	Outlook good.
Maxwell Motor com...........	.....	.....	0.30	5.53	29.10	29.62	0	30	0.00	Making pleasure cars, trucks and tractors.
Mex. Petroleum com..........	5.91	11.22	4.78	4.93	15.79	.....	8	100¼	7.99	Shipping and Mexican situation satisfactory.
Miami Copper	2.81	1.75	1.65	4.55	10.39	4.28	4	29⅜	13.61	High costs, dividend safe. Increased price favorable.
Nat. Biscuit com.............	10.05	9.59	11.74	9.52	8.19	9.87	7	96	7.40	Peace will prove advantageous.
National E. & S. com........	—1.54	1.13	—0.32	2.10	12.74	23.39	6	52¼	11.49	Dividend increase justified.
National Lead com...........	3.81	3.64	3.73	4.86	6.16	15.44	5	59⅞	8.35	Large earnings.
Nevada Cons. Cop............	2.17	1.45	0.74	2.78	7.50	4.83	3	20⅛	14.91	New price a boon.
New York Air Brake.........	5.72	6.55	6.41	13.43	82.15	18.94	20	129	6.45	Earnings large.
Pittsburgh Coal pfd..........	7.48	10.07	5.06	6.11	11.64	.....	6	83	7.22	Coal price regulation.
Pressed Steel Car com........	0.76	10.56	0.14	3.60	15.01	10.00	7	67	10.45	Large orders. Strongly intrenched.
Pullman Co.	8.69	9.28	9.04	8.80	10.32	11.36	8	115	7.96	Increased expenses reduce margin over dividend.
Railway Steel Sprg. com.....	5.77	1.31	—0.42	3.10	20.49	32.31	5	60¾	8.07	Repair business heavy. Earnings large.
Ray Cons. Copper............	1.33	1.49	1.29	2.73	7.43	6.15	3	24½	12.24	Excellent improvement. New price a factor.
Republic Iron & Steel com....	3.54	4.97	.56	6.49	47.95	51.88	6	93	6.45	Possible extra dividend.
Sears, Roebuck com..........	19.34	21.17	21.31	17.57	25.86	18.08	8	139	5.75	Record gross, but profit reduced.
Sloss-Sheffield com.	0.84	2.09	0.21	0.53	14.44	15.77	6	63¼	9.49	Dividends resumed. Company intrenching.
Studebaker Corp. com........	4.82	2.48	13.09	26.55	26.25	9.11	4	46	8.69	Large debt. Government orders.
Tobacco Products com........	.....	2.52	1.98	2.69	5.44	9.32	6	64½	9.30	Maintains heavy business. Possible merger.
United Cigar Stores com.....	.....	6.83	7.09	7.69	9.48	.....	8	100⅝	7.95	Record breaking business.
United Fruit	15.28	14.52	6.19	16.11	24.34	26.72	8	126	6.36	Government regulating rates.
U. S. Cast Iron Pipe pfd.....	6.21	5.28	0.29	1.37	12.12	11.18	5	45	11.11	High prices curtail demand.
U. S. Ind. Alcohol com.......	5.01	1.94	1.94	14.60	36.13	54.67	16	124⅞	12.81	Strongly entrenched.
U. S. Rubber com............	6.31	9.53	8.00	9.51	15.12	28.77	0	59⅝	0.00	High costs and competition.
U. S. Smelt. & Ref. com.....	7.20	5.36	1.60	13.93	20.46	.....	5	43¾	11.42	Benefits from high prices. Record output.
U. S. Steel com..............	5.71	11.02	.....	9.96	48.46	46.29	5§	106⅝	4.68	New taxes a probable menace to dividend.
Utah Copper	5.35	5.05	5.02	10.70	24.10	17.66	10	82	8.20	Expect record business. New prices.
Va.-Carolina Chem. com......	3.28	0.53	3.40	7.55	10.39	10.92	4	49¾	8.04	Peace will benefit. Increased dividends.
Westinghouse Elec. com......	3.20	4.15	5.35	2.43	8.53	12.08	3½	42½	8.24	Record war orders strongly financed.
Willys-Overland com.	.....	4.63	3.75	12.56	5.75	3.16	1	19⅞	5.03	Dominant position in cars and aeros.
Woolworth (F. W.) com.....	8.73	10.82	10.87	13.19	15.57	16.72	8	114	7.01	Business large. Peace stock.

**3% extra in quarterly installments of ¾% each. §Extra dividends. ‡No regular dividend. Has made two distributions of $1 each this year.

The Duty of the Employer in the Reconstruction of the Crippled Soldier

By DOUGLAS C. McMURTRIE, Director

Red Cross Institute for Crippled and Disabled Men, New York City.

WE must count on the return from the front of thousands of crippled soldiers. We must plan to give them on their return the best possible chance for the future.

The only compensation of real value for physical disability is rehabilitation for self-support. Make a man again capable of earning his own living and the the chief burden of his handicap drops away. Occupation is, further, the only means for making him happy and contented.

The disability of some crippled soldiers is no bar to returning to their former trade, but the injuries of many disqualify them from pursuing again their past occupation.

In the readjustment of the crippled soldier to civilian life, his placement in employment is a matter of the greatest moment. In this field the employer has a very definite responsibility.

But the employer's duty is not entirely obvious. It is, on the contrary, almost diametrically opposite to what one might superficially infer it to be. The duty is not to "take care of" from patriotic motives, a given number of disabled men, finding for them any odd jobs which are available, and putting the ex-soldiers in them without much regard to whether they can earn the wages paid or not.

Yet this method is all too common. A local committee of employers will deliberate about as follows: "Here are a dozen crippled soldiers for whom we must find jobs. Jones, you have a large factory; you should be able to take care of six of them. Brown, can you not find places for four of them in your warehouse? And Smith, you ought to place a couple in your store."

Such a procedure cannot have other than pernicious results. Experience has shown that men placed on this basis alone find themselves out of a job after the war has been over several years, or in fact, after it has been in progress for a considerable period of time.

A second weakness in this method is that a man who is patronized by giving him a charity job comes to expect as a right such semi-gratuitous support. Such a situation breaks down rather than builds up character, and makes the man progressively a weaker rather than a stronger member of the community.

The third difficulty is that such a system does not take into account the man's future. Casual placement means employment either in a make-shift job or in a job beyond the man, one in which, on the cold-blooded considerations of product and wages, he cannot hold his own.

The positive aspect of the employer's duty is to find for the disabled man a constructive job which he can hold on the basis of competency alone. In such a job he can be self-respecting, be happy, and look forward to a future. It is not so easy of execution as telling a superintendent to take care of four men, but there is infinitely more satisfaction to the employer in the results, and infinitely greater advantage to the employee.

Thousands of cripples are now holding important jobs in the industrial world. But they are men of exceptional character and initiative and have, in general, made their way in spite of employers rather than because of them. Too many employers are ready to give the cripple alms, but not willing to expend the thought necessary to place him in a suitable job.

This, then, constitutes the charge of patriotic duty upon the employer:—

To study the jobs under his jurisdiction to determine what ones might be satisfactorily held by cripples. To give the cripples preference for these jobs. To consider thoughtfully the applications of disabled men for employment, bearing in mind the importance of utilizing to as great an extent as possible labor which would otherwise be unproductive. To do the returned soldier the honor of offering him real employment, rather than proffering him the ignominy of a charity job.

If the employer will do this it will be a great factor in making the complete elimination of the dependent cripple a real and inspiring possibility.

PUBLIC UTILITIES

Pacific Gas & Electric's Partnership with Its Clients

Satisfactory Results Obtained—Higher Costs Problem—Analysis of Investment Position of Company's Stocks and Bonds

By CLINTON BOYLE

WHEN a company is in partnership with its best customers, things that would ordinarily jangle and jar, run with marvelous smoothness. The Pacific Gas & Electric Co. thought this out for itself back in 1914 and straightway it set to work to accomplish the purpose so much to be desired. It figured that the consumer who owned ten, or a hundred, or several hundred shares of stock, would be much more sympathetic in his judgment of the company's viewpoint in matters of rates and service—and, besides, there was the attractive possibility of a considerable saving in underwriting fees.

Success in Co-operation

At the start the marketing of an issue of $12,500,000, 6 per cent. first preferred stock was undertaken. When success did come, the sales methods were so well applied that by the close of 1914 not only had the entire issue been disposed of, but permission was obtained for putting out an additional $2,500,000, as might be needed, bringing the total flotation up to $15,000,000. Up to the early part of 1917, $14,550,000 had been sold without any underwriting fee, and of this total fully 50 per cent. went into the hands of employees, consumers and others living in the territory served. The average investment of each purchaser was surprisingly large—$1,231—when it is considered that about 40 per cent. of the total number were employees.

Pacific Gas & Electric, it is hardly necessary to say, is a California property, and the market outlook for its securities has recently been greatly improved by the growth of a broad investment demand for such securities on the Coast. Recently California has started in to take all of its own output of public utility bonds and stocks—and also municipals. This has been largely due to investors' apprehension of a heavy increase in taxes on unearned income from which municipal bonds, and some public utilities are exempt. While the impelling reason is of a temporary character, the tendency is likely to endure beyond the war.

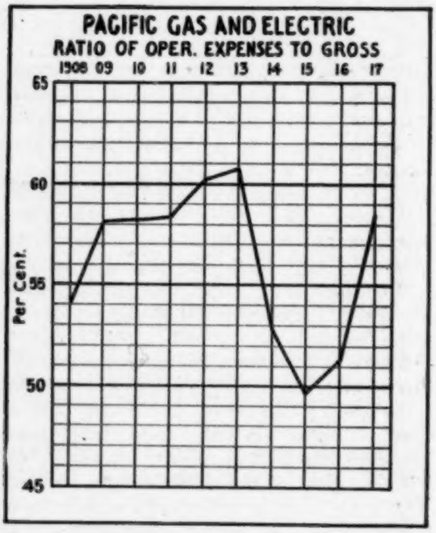
The company is one of the five larger concerns serving central and northern California. Its business consists in the manufacture and sale of gas and electricity for lighting, heating, and power purposes, in street railway operation, and the sale of water for power, irrigation and domestic purposes. These operations extend into 32 counties of the state, with a population of 1,325,637, or about 55 per cent. of the whole state—according to the 1910 census—embracing an area of about 38,000 square miles. About two hundred communities are served in this territory, including eight of the eleven largest cities in the state. The company's consumers number over 450,000, and it does fully 36 per cent. of the gas and electric business of all California.

Electric Properties

Its electric properties comprise fourteen hydro-electric water power stations and three power stations generating by steam, having a capacity of 164,975 and 106,568 developed electrical horse power, respectively. It has seventy storage lakes and reservoirs, with a storage capacity of 6,398,176,773 cubic feet of water. The gas properties consist of eighteen gas plants, distributing

through 2,878 miles of gas mains and 254,948 meters, supplying the entire city of San Francisco and fifty-two other cities and towns. The company also owns the street railway system of Sacramento, comprising some 44 miles of track, with 66 cars. With one minor exception, rights and franchises are without time limitation in the cities, or else extend from ten to fifteen years beyond the life of the company's bonds.

The foregoing data make rather dry reading, but they give some idea of the size of this western utility company, which was incorporated in 1905 as a holding company to acquire the capital stocks of the San Francisco Gas & Electric Co. and the California Gas & Electric Corporation. In addition the company owns and operates the properties of six other concerns formerly owned by these corporations. Three other properties, including the Mount Shasta Power Co., which owns hydro-electric properties on the Pitt River in Shasta County, Cal., with a potential capacity of 180,000 to 250,000 horsepower, have since been acquired.



Higher Costs Problem

After having earned slightly more than 10 per cent. on its thirty-two odd millions of common stock in 1915, the common war ailment of rising costs attacked the company and last year earnings fell to 5½ per cent., although the gross business was the largest ever recorded. The accompanying graph clearly portrays this upward trend of costs. In 1915, the ratio of expenses to gross revenue stood at only 49.7 per cent., while by 1917 the proportion had risen to 58.5 per cent.—almost a 20 per cent. increase.

The rise in operating expenses in 1917, proves to have been made up chiefly of an increase of $82,000 in maintenance of properties, $1,613,863 in direct costs of operation, and $349,939 in taxes and administrative expenses. Thus, as against an expansion of only about $1,200,000 in gross, expenses increased fully $2,045,800.

Going further into the details of cost, it is found that in the electrical department the average revenue per consumer in 1916 was $56.54, as compared with $55.87 in 1917. Electrical construction costs during the year amounted to $853,041, or $61.20 for each new consumer obtained. The cost per k.w.-hour, including generation by water and steam, was 1.81 mills in 1916, and 2.55 mills in 1917, an increase of 0.74 of a mill. The increase in oil cost alone, it is figured, would have amounted to 0.76 of a mill, or more than the total increase, but economies in other directions succeeded in reducing the net advance. The average of operating and maintenance expenses per k.w.-hour increased from 6.9 mills in 1916 to 7.3 mills in 1917, a gain of 0.4 of a mill. In the water department the average gross revenue per consumer amounted to $37.56 in 1917, as against $42.65 in 1916, while in the gas department the average remained stationary at $31.95.

Pacific Gas & Electric's increased burden of operating expenses was the result chiefly of a shortage of water, due to inadequate precipitation and light snows in the mountains, and high prices which had to be paid for fuel oil for steam generation purposes. It has been estimated that the shortage of stored water affected the production of some 74,000,000 k.w.-hours, requiring an additional expense for oil of about $500,000.

Funded Debt

There are $33,042,000 general and refunding mortgage gold 5s, series "A," due January 1, 1942, outstanding, of an author-

ized issue of $150,000,000. Outstanding bonds are safeguarded by restrictions as to the issuance of additional bonds, the provision being that not over 90 per cent. of the cost of extensions be covered by further flotations, with the requirement that earnings available for bond interest shall be at least one and one-half times the annual interest on all outstanding bonds, including those to be issued, but excluding those held alive in the sinking fund. Of the unissued bonds about $68,000,000 are reserved for extensions, and $47,000,000 for retirement of underlying liens. Since March 23, 1912, issuance of these bonds is subject to approval of the California Railroad Commission. They are a direct obligation of the company and secured by a lien on all the properties now owned by the company, subject to $49,906,300 prior liens.

It is of prime interest to the bondholder to know that the company's operating properties are in excellent physical condition, owing to a liberal policy of maintenance and depreciation. In 1917, $1,207,121 was expended for maintenance, and $1,250,000 was set aside as a reserve for depreciation —that is, for replacements, renewals or abandonments of inadequate, worn out or obsolete properties. And 1917 was not an exceptional year in this respect. In the twelve years of the company's corporate history it has expended $13,287,003 for maintenance and has appropriated $17,307,509 for depreciation, or an annual average of more than $2,500,000 for these two purposes. Out of every $100 of gross revenue, $12.40 was set aside for maintenance and depreciation in 1917, as compared with $12.42 in 1916, and $12.41 in 1915—a remarkably consistent record.

Table I shows the growth during the past ten years in the number of consumers served by the company:

Pacific Gas & Electric's outstanding stock capitalization at present consists of $24,771,292 first preferred, $76,300 original preferred which has been reduced from $10,000,000, and $34,004,058 common. There has been a considerable change in capitalization over the last seven years. Back in 1911 there was outstanding $61,636,567 common, and $10,000,000 original preferred. Most of the original preferred stock, which is 6 per cent. cumulative, has been exchanged since July 1, 1916, under the terms of the offer of 1.025 shares of new 6 per cent. preferred for each share of old.

Because of this constant shifting in capitalization, percentages earned on the various stock issues over a period of years are meaningless. For the last two years, however, the amount of stock outstanding has been sufficiently constant to permit of comparison. In 1917, 13.57 per cent. was earned on the combined preferred and original preferred stock, as compared with 18.66 per cent. in 1916. Earnings on the common stock amounted to 5.57 per cent. in 1917, as against 9.10 per cent. in 1916.

TABLE I—PACIFIC GAS & ELECTRIC'S GROWTH

	No. of Consumers		
	Gas	Electricity	Water
1907	122,304	54,772	5,539
1908	131,235	62,026	5,753
1909	139,503	70,515	6,360
1910	152,395	83,005	6,726
1911	176,131	102,024	7,257
1912	194,914	117,065	8,027
1913	208,269	132,355	8,479
1914	220,360	148,957	9,051
1915	227,586	166,149	9,432
1916	232,748	178,630	10,025
1917	243,182	194,374	12,655

Table II shows the growth in the company's earning power over the last nine years.

An examination of this table shows that in 1916, before the unfortunate lack of rains brought the company's costs up so sharply, net income was more than twice that of 1908. Gross revenue comparisons reveal consistent growth, and it is only necessary to look back to the table of consumers to see why this is. Having in mind the territory the Pacific Gas & Electric Co. serves, there appears to be no reason, once normal conditions are restored, why this record of growth should not be amplified.

In order to offset in a measure rising costs, arrangements have been made for a tie-in of power transmission lines with the California-Oregon, and Northern California Power companies. A new 15,000 k.w. turbine will also be put in operation in San Francisco the first of next year, and these improvements to cost approximately $2,000,000 will likely enable the company to meet all demands of the Government for power.

There is need of all the company can

produce. The report of the California Railroad Commission, made about two months ago, showed a shortage of hydro-electric power in the central part of the state. It was also brought out that none of the electric utilities had in progress of construction plants to meet the demand for power, which is increasing at the rate of 25,000 k.w. of demand, and 150,000,000 k.w.-hours a year. The problem before the commission was to increase the output of power, with due regard for the decreasing oil storage and its conservation for war purposes. Steps have been taken to accomplish this, as in the case of the tie-in with the northern companies, by inter-connection of lines and utilization of every stray ounce of available water power. This coupling of power, for which arrangements have been made to cover a period of ten years, is expected to bring about a saving in fuel oil amounting to about $480,000 annually, while Pacific Gas & Electric's share in the expense of this improvement will amount to about $200,000.

TABLE II—PACIFIC GAS & ELECTRIC'S EARNING POWER

	Gross Revenue	Total Income	Net Income	Surplus After Divs.
1908	$12,598,862	$5,806,145	$2,163,360	$2,163,360
1909	12,991,095	5,959,712	2,971,190	2,671,190
1910	13,610,660	6,123,255	2,383,597	1,783,597
1911	14,092,642	6,390,537	2,363,177	1,763,177
1912	14,025,622	6,313,090	244,147	*1,876,288
1913	15,351,290	6,871,130	1,506,622	507,774
1914	16,912,688	8,306,582	3,115,181	2,500,198
1915	18,530,301	9,738,587	4,373,176	3,368,943
1916	18,615,497	9,566,502	4,471,568	1,388,763
1917	19,813,381	8,717,037	3,366,130	613,654

*Deficit

At the close of 1917, the company's net working assets, represented by the difference between current assets and current liabilities, and including in the former unreimbursed advances to construction account, were $7,188,381, an increase of $101,342 over the preceding year.

Dividends have been paid at the rate of 6 per cent. on the first preferred stock since issuance, and as fully 13½ per cent. was earned on the combined senior issues in the last year of difficult operating conditions, maintenance of the full rate on this issue is reasonably certain. The first preferred is now selling around 81, as compared with a low of 79¾ in 1917. In 1917 the high was 95½, and in 1916, 94. The common stock has had an erratic dividend record, but from April, 1916, to October 15, 1917, payments were regularly made at the rate of 5 per cent. annually. On January 2, 1918, the directors voted to pass the quarterly dividend on this issue, and it was stated that the stoppage of payments was due to a desire on the part of the company to conserve its resources. The common is now quoted around 38½@39, as compared with a high level of 69 last year, and 67¼ in 1916, and a low of 30¾ in 1917.

Investment Position of Securities

With the outcome of the combat with rising costs still uncertain, there is little of an attractive nature in the immediate future earnings outlook of the company. But it is usually under just such conditions that the basis for big profits is laid in investment and speculative purchases. There are good reasons for implicit faith in the company's future development. Purchases of both the preferred and common by those prepared to hold through the remainder of the period of uncertainty should show excellent profits over a period of years.

The refunding 5s are now selling around 79, as compared with a high record of well above 90. Although subject to a large amount of prior liens, they appear to be well protected on property valued by J. G. White & Co., engineers, at considerably in excess of the total amount of bonds outstanding. They are an attractive investment at current levels.

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

CITIES SERVICE—New Gasoline Plant—New gasoline absorption plant at Arkansas City, Kans., has been completed and is operating at full capacity. It is sixth such plant of company. Has daily capacity of fifty million cubic feet of gas and was built to care for production coming from Blackwell, Okla. field through 16-inch pipe line completed last winter.

INTERBOROUGH RAPID TRANSIT—Report—Surplus for 1918 was $6,794,245, as compared to $8,469,450 in 1917, a decrease of $1,675,205. No dividend changes are contemplated in connection with Interborough financing. Interborough Consolidated Corporation owns $33,912,800 of the $35,000,000 outstanding capital stock of Interborough Rapid Transit Co., and 9% of present 10% annual dividend received from these holdings is required to meet the interest charges on the $67,825,000 4½% Interborough Consolidated trust bonds.

INTERSTATE RAILWAYS—Dividend Passed—Directors have again passed 3% semi-annual preferred dividend, several of leased companies, as was case six months ago, when preferred dividend was omitted having failed to pay rental. Their net earnings position has not changed for the better.

METROPOLITAN EDISON—Advance Offering—Bonbright & Co., are making an advance offering of a new issue of $1,200,000 of company's bond secured 6 per cent notes, dated June 15, 1918, and due June 15, 1920. The offering is made on a "when if and as issued" basis and is subject to approval by capital issues committee. New notes are being issued to retire $1,050,000 of one year 6% notes due August 1, and to partially reimburse company for additions and improvements.

MEXICAN TELEGRAPH—Report—Gross earnings for quarter ended June 30, 1918, were $375,000. Net after taxes was $255,000, compared with $247,000 for previous quarter of current year. Other income totalled $56,387 bringing gross to $311,387. Mexican government charges were $16,250. Dividends amounted to $124,880, same amount paid during preceding quarter. After repairs, replacements, war taxes, etc., surplus of $100,075 was accounted for.

NEVADA-CALIFORNIA ELECTRIC—Report—For the month of March company and subsidiaries report gross earnings as $171,009, an increase of $27,859. Net after taxes was $89,387, an increase of $4,433. Surplus after charges was $14,391, a decrease of $12,822. For the three months gross was $489,022, an increase of $88,241. after taxes was $89,387, an increase of of $44,518. Surplus after charges was $49,547, a decrease of $6,749.

NEW YORK TELEPHONE—Report—Report of operations for May shows gross earnings of $5,360,223, compared with $5,071,529 for corresponding month of last year. Net operating revenue totalled $1,612,191, against $1,855,539 for same month of preceding year, a decrease of $243,348. Balance after taxes amounted to $1,158,430, which compares with $1,504,505 year before. Gross earnings for the first five months of the current year were $26,211,700, an increase of $1,525,898 for the same months of 1917. Net operating revenue was $8,408,824, against $9,298,667 for five months ended May 31 previous year. Balance after taxes for period amounted to $6,035,225.

PHILADELPHIA CO.—Report—Report for May shows gross earnings increased $365,527; net earnings increased $185,266. For two months ended May 31: Gross earnings increased $692,795; net earnings increased $312,986.

SOUTHERN CANADA POWER—High Tension Lines Completed—Company had completed high tension transmission lines, with necessary sub-stations, etc., connecting cities of Sherbrooke and Granby. This line, which is of 48,000 volt capacity, passes through Magog, Knowlton, Foster, etc., and is now in operation supplying Granby and intervening territory with electric power. Sub-station of company at Granby is located on main street and also contains a large store, for sale of electrical appliances, etc. Work on one of company's hydro-electric developments at Drummondville is progressing satisfactorily, over 250 men being employed. Plant will have an ultimate capacity of 17,000 horsepower, and is expected that two units, with capacity of over 7,000 horsepower, will be in operation by April 1. Company is also building additional high tension transmission lines connecting Drummondville with city of Sherbrooke.

UNITED TRACTION—Petition Filed—Counsel for the bondholders of this company on July 1, appeared before Judge Chas. P. Orr, in U. S. District Court at Pittsburgh and filed petition asking Philadelphia Co. and Pittsburgh Rys. Co. be jointly held responsible for indebtedness to bondholders of United Traction Co. Petitioner stated interest on bonds has not been paid in accordance with agreement.

MINING AND OIL

Stabilizing the Oil Trade

Intelligent Co-operation Between Government and Oil Industry—Stimulation of Production and Speeding of Deliveries—Benefits from War Condition

By J. W. SMALLWOOD

THE principle deterrent to investment in seasoned oil securities since our entrance into the war has been apprehension among investors as to the Government's attitude towards the oil industry and the possibility of price-fixing.

In view of the Government's action in regard to certain other industries considered essential to the prosecution of the war and the fixing of prices for steel and copper, there has been plenty of ground for uncertainty as to the effect of Governmental regulation of the oil trade.

More than a year after the United States declared war on Germany, however, we find the oil industry working in closer co-operation and harmony with the Government than at any previous time in its history. Instead of interfering with the industry the Government has been assisting the oil trade in every way possible, and the result is that today the oil industry is operating at a higher point of efficiency than ever before. Such a result has only been made possible by the closest co-operation between the oil industry as a whole and the Government for the single patriotic purpose of helping to win the war.

Just as the war has joined together various elements throughout the country which had previously been antagonistic towards each other, so it has resulted in a close union of all interest engaged in the petroleum industry, an accomplishment which before the war would have been regarded as absolutely impossible of realization.

Standard Oil and the Independents

There has been a complete change in the relation existing between the Standard Oil and independent oil interests. Such a change did not take place over night, but was gradually effected as it became more and more apparent that a united nation was absolutely essential for the winning of the war and that co-operation was necessary in order to supply the maximum results demanded of the oil business as an essential war industry.

For some time after we declared war on Germany the oil trade groped about in the darkness trying to feel its way towards the proper course required by the changed conditions brought about by the war, but without any common leadership or concerted action. A Petroleum Committee was eventually created under the Council of National Defense, which brought the various units in the industry in contact with each other. Later the Council of National Defense was dissolved, but in the absence of a national body to represent the oil industry a new organization known as the National Petroleum War Service Committee was formed.

Up to this time, however, it might be said that the maximum effort of the industry had not been forthcoming largely due to the uncertainty then prevailing as to the Government's future attitude towards the oil business and the fact that while suggestions might be made, there was no actual authority to order into effect plans which might be regarded as tending to increase the efficiency of the industry.

Early in 1918 an Oil Administrator was appointed in charge of the Oil Division of the Fuel Administration. Fortunately for the industry the man selected for this important position, Mark L. Requa, was a man who had had experience in the oil business and was thoroughly familiar with the general conditions affecting the industry. Recognizing that the industry as a whole had been endeavoring to adjust itself to war conditions from a patriotic stand-

point, the Oil Administrator soon after his appointment made it plain that he did not intend to interfere with its normal operations, and even if he deemed it advisable that he had no power to fix prices except possibly for fuel oil and kerosene. In a public statement at that time the Oil Administrator said:

"I believe the obligation of the Oil Division is to assist the industry in accomplishing the ends that cannot be attained by the industry alone; to encourage; to stimulate and to harmonize all branches so that the greatest possible benefit shall flow from any given effort." He further stated: "I believe that details of operation must be left in the hands of those men who are now engaged in directing the industry if we are to have maximum results."

Mr. Requa clearly saw that only with the incentive of higher prices for crude oil could maximum drilling and production be attained and prices were generally advanced with his apparent approval. When it became evident, however, that in certain cases oil was being held in storage with the object of obtaining still higher prices, the Oil Administrator let it be known that further price advances at this time would be looked upon with disfavor by the Government.

More recently the Oil Administrator has suggested the advisability of a new method of stabilizing crude oil prices, and representatives of the producers are now busily engaged in working out details for effecting such a stabilization. Nothing could better illustrate the Government's confidence in the ability and patriotism of the leaders of the oil industry than the Oil Administrator's letter on this subject to Chairman A. C. Bedford, of the National Petroleum War Service Committee. In this letter Mr. Requa stated:

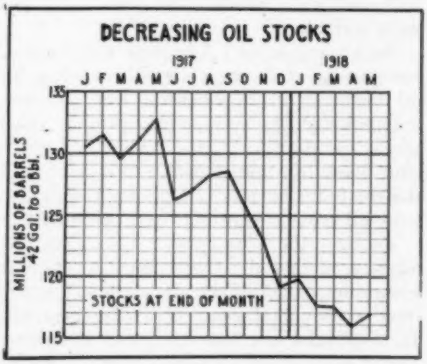
"I believe that the Committee should approach the problem without much, if any, suggestion from the Division; keeping in mind, however, the one general thought that it is desirable to have the oil industry, as a whole, formally committed to certain reasonable and stabilized base prices with certain manufacturing differentials and regulations that will permit of reasonable and maximum output without adding to the price of the finished product."

In recent weeks the various factors in the industry have been consulting with the idea of following the Oil Administrator's suggestion, and probably some plan will be worked out similar to the plan which has been followed in California in the past. In that field a base price is fixed for oil of a given gravity, with additions to the price for every degree of higher gravity and deductions for every degree of lower gravity than the established standard.

This plan has worked out very satisfactorily in California and the adoption of a similar plan by the industry in general may prove of lasting benefit even with the return of normal conditions after the war.

Speeding Up Deliveries

While it would be impossible to supply foreign and domestic requirements of petroleum products at the present rate if production had not increased and everything possible has been done to encourage and stimulate the output of crude oil, nevertheless the principal problem which the industry has had to solve since our entrance into the war has been the question of transportation and deliveries. Only with the industry acting as a unit in perfect co-operation with the Government could shipments to refineries and consumers have been brought up to the present high rate.



At one time last winter during the most severe railroad congestion the daily average movement of tank cars was less than 20 miles, while at the present time it is understood that tank cars are being moved on an average of more than 40 miles daily, which is the speediest tank car movement in the history of the oil trade.

This accomplishment has been made possible largely by the strenuous efforts of the Tank Car Advisory Committee of the War Service Committee working in conjunction with the traffic heads of the various oil companies throughout the country. At one time last winter it is understood that deliveries of petroleum products fell off to almost 50 per cent. below normal. Had the various companies engaged in the oil business not been realizing a fair margin of profit previous to that time, this reduction would have had very serious consequences.

In this connection it is interesting to note the report that the Midwest Refining Company furnished the Navy Department at the Atlantic Seaboard with over 10,000,000 gallons of gasoline. Incidentally, it is understood that this entire order was filled in less than two weeks' time after deliveries were started.

As a result of Oil Administrator Requa's recognition of the necessity of assisting the oil business as an essential war industry, the industry has been aided in many other ways. At the time of the general industrial shut-down last winter owing to lack of coal, the oil industry was one of the few industries allowed to continue full operations.

Recently the War Service Committee has announced that the Government's action in assuming control of the steel industry would have a beneficial effect upon the oil trade. It is pointed out that the War Industries Board has classed as highly essential to the Government's program for the prosecution of the war the production of oil and gas, of all kinds of oil well supplies used in that production or in pipe line transportation. This decision has been a great relief, especially to oil producers, who have been finding it extremely difficult to obtain sufficient steel supplies.

The Change from War to Peace Conditions

An example of the extent of the readjustment of the oil industry from peace to war conditions is given in a statement recently made by President J. W. Van Dyke, of the Atlantic Refining Company. Mr. Van Dyke said that the war had had a marked and increasing effect upon the business of his company. In January, 1917, only about 28 per cent. of the company's output was used by the United States Government and the Allies, while at the beginning of the current year 51 per cent. of the company's production was being consumed by the United States and the Allied Governments, and an additional 16 per cent. was going to railroads, shipyards, munition plants and other vital industries.

While such a radical change may not have been effected throughout the industry, it is clearly apparent that a very large proportion of the country's petroleum output is being used in the prosecution of the war, and every day that the war continues the oil industry is being called upon for increased quantities of its products, especially gasoline, fuel oil and lubricating oils.

Recently the Government has fixed prices at which gasoline, naphthas and fuel oil are to be furnished to the Government and its allies, and subsequently the Standard Oil Company of New York withdrew its export quotations, which would indicate that there is now practically none of these products for sale for export except that required by the Allied Governments. The latest month for which export statistics are available is May and the figures for this month show that gasoline and naphtha exports were the largest on record.

As in the domestic situation, the industry has been chiefly concerned with the question of tank car transportation, so in the export trade the principal problem has been the question of obtaining sufficient shipping facilities. While the various export companies have been steadily building new tankers, their progress in adding to the total oil-carrying fleet has been considerably interfered with by the submarine campaign. However, tankers on which construction was begun some time ago are now being rapidly pushed to completion and orders have been placed for additional vessels on a large scale, so that our American oil-carrying fleet should soon show a tremendous increase in tonnage, and there is not likely to be any delay in our war program as a result of insufficient oil supplies.

The war has been of great benefit in bringing the oil industry up to its highest efficiency, and changes which are now being effected should produce results of great benefit with the return of peace. We shall probably never again witness the antagonism which has existed in the past between the Standard and independents.

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

EMPIRE GAS & FUEL—Oil Output— Pumped from ground and into pipe lines or storage tanks 69,384 barrels of oil, the record production in history of petroleum industry for one day's production by an individual producing corporation. Production of company wells in Butler County, Kansas, June 17, was greater than the entire Gulf Coast daily production, which in March averaged 56,971 barrels daily, while entire Appalachian oil district, comprising states of New York, West Virginia, Ohio, Kentucky and Indiana averaged daily production of 64,517 barrels in March.

INTERNATIONAL PETROLEUM—Report—Substantial increase in earnings over 1916 is expected to be shown by forthcoming annual report of International Petroleum Company, Ltd., for 1917. Profits in 1917 were greatly in excess of 1916, is indicated by fact that initial dividend of 50c a share was paid in January, 1918. Company, earned $395,484 in 1915, and $905,614 in 1916, increase of 125%.

ISLAND OIL—Deliveries—Has begun regular deliveries of oil to vessels of Atlantic Refining Company at Island company's pipe line terminal, Port Lobos, Mexico. Company is scheduel to deliver about 6,500,000 barrels of oil to tank steamers of Atlantic Refining Company. Atlantic company has assigned three of its tank steamers, the *Donnell*, the largest tank steamer afloat, the *Irish* and the *O'Neill*, to handle Island company's production. In addition to this company is building up a substantial fleet of barges in which it will carry oil from Mexico to Gulf Coast ports of United States. A pipe line with capacity of 40,000 barrels of oil daily conveys crude oil from company's great well to seaboard. Present daily run is about 17,000 barrels. Price to be received from Atlantic Refining Company for oil sold to that concern is on a sliding scale of from 60c to 80c a barrel. Company's gross earnings in 1918 have been estimated at $6,000,000.

MERRITT OIL — New Wells Completed—Four additional wells with an aggregate initial daily production of 405 barrels are reported in western dispatches to have been completed on acreage of this company in Big Muddy field of Wyoming. Three of these wells are producing from Wall Creek sand, while one was completed in a shallow formation. This makes eight wells reported thus far that have been completed on the company's acreage in June and indicates the speed with which company is developing properties. There now are reported 35 wells drilling on company's Big Muddy acreage.

OKMULGEE PRODUCING & REFINING—Daily Output—Company in Oklahoma places the amount of crude oil being marketed daily at approximately 7,000 barrels. Large amount of this oil is being sold at substantial premium above market price of $2.25 a barrel. Net earnings believed to be running at rate of $10,000 daily. Company has total of 51 wells. Many wells are being drilled in districts other than Youngstown, where larger part of company's production lies.

ROYAL DUTCH—To Pay 18% Dividend—General meeting of shareholders will be called July 24, at the Hague, Holland, at which it will be proposed to fix the final dividend for 1917 at 18 per cent, thus making a total disbursement for year of 48 per cent on present capitalization. At same time it will be proposed to double outstanding capitalization. Will be accomplished by offering to shareholders an opportunity to subscribe at par to one additional share for each two shares now held, issuing another share for each so subscribed as bonus. Proposed change in capitalization of Royal Dutch Company will make its share capital 200,000,000 florins, or about $80,400,000. Of this only 50,000,000 florins represent increased authorization, as company's present authorized capital is 150,000,000 florins, of which 82,927,200 florins, or about $33,336,734 par value is at present outstanding.

SAVOY OIL—Earnings High—Earnings of company are believed to be running at a considerably higher rate than 1917 year, when company paid 19% in dividends. Production, according to an official of company, is being maintained at rate of about 500 barrels a day, while price received for oil, which comes from wells both in Oklahoma and Louisiana, is considerably higher than was received in 1917. Company derives considerable income from sale of natural gas. Company has under construction at least one casing-head gasoline plant, which is expected to add considerably to revenue.

SEQUOYAH OIL—New Wells—Company completes a well known as No. 2 Stevens with initial production of 20 barrels a day at shallow depth of about 1,200 feet. Only one of several completions recently credited to company, which has wells drilling in numerous districts of Oklahoma. A few weeks ago a well with an initial production of 85 barrels a day was completed.

Mining Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

ALASKA GOLD — Operations — Operations for June were 82,300 tons of ore milled which were assayed at $1.24, as compared to 101,200 tons milled in May, with assay value of $1.11. Tailings were 20.7c, as compared with 10.9c, in May. Extractions were 83.31%.

AMERICAN SMELTING & REFINING — Operations Curtailed — Has been forced to curtail materially its mining and smelting operations in Chile on account of combination of adverse circumstances brought by war conditions. Carrizal plant has been closed down but operations have continued at Caldera smelter, although at greatly reduced margin of profit. Each of these plants has a capacity for turning out about 2,000,000 pounds of copper monthly so elimination of one has cut down the copper yield from close to 50,000,000 pounds per annum to 24,000,000 pounds.

AMERICAN ZINC—Not Affected By Advance in Spelter—Recent advance of 2 cents per pound in price of prime western spelter will not affect earnings of company as at present it is not a producer of prime western and has intention of resuming operations for production of this "low grade" product. Mining efforts confined to Tennessee field, where it is outputting about 2,500 tons per month of high-grade Mascot spelter. It is sold ahead to government for balance of year. American Zinc continues to earn between $100,000 and $125,000 net per month before depletion and depreciation charges. At present time it has net quick assets of $4,250,000 excluding $600,000 worth of Cities Service Co. preferred stock.

ANACONDA COPPER—New Copper Price Benefit—Advance in "official" price of copper from 23½c to 26c is of particular benefit, in that it owns its own smelters and refineries. An immediate adjustment of smelting and refining charges would be made whereby mining companies would consent to divide a portion of the 2½c increase in price of copper with custom smelters and refineries. Anaconda, owning and operating its smelting and refining plants, will not divide with outside interest 2½c advance. It will have to pay increased transportation charges. Assuming that additional transportation expense is equal to one cent per pound, Anaconda will receive full advantage of a 25c copper market. Profit of 11c per pound on production for first half of 1918 would mean net earnings of $17,270,000, or at rate of $15 per share per annum on 2,330,000 shares. The $8 dividend is strongly fortified. Gross value of ore mined was $56,684,798; total cost of mining, $25,589,739; total cost of reduction, $11,525,919; freight, $703,852; marketing charges, including refining, freight and selling expenses, $4,826,286. The decline in net proceeds from previous year was approximately $22,000,000.

BUFFALO MINES — Production — Silver production for year totaled 767,740 ounces. Mill treated 28,481 tons ore, and 88,534 tons tailings, from which total recovery was 729,298 ounces. Total smelter returns were 775,483 ounces. During year development work totaled 1,095 lineal feet, and stoping 452,200 cubic feet. Total to date of shafts, 2,564 feet, drifts, 20,946 feet and stoping 2,333,912 cubic feet.

BUTTE & SUPERIOR—Injunction Revoked—Judge Bourquin, in U. S. District Court at Helena, Mont., revoked the injunction ordered by the U. S. Circuit Court of Appeals at San Francisco on May 14 last, in litigation regarding "flotation process" brought by Minerals Separation, Ltd., decision relieving company of necessity of depositing its monthly earnings in Federal Court, and also of making monthly reports of operations. Now has exclusive control over own finances and receipts. Judge Bourquin dissolved order in suit of Minerals Separation Co., Ltd., for infringement of patent and collection of royalties under provisions of which Butte could not pay out any of its receipts nor dispose of any liquid assets, nor tie up its properties. Suit of Minerals Separation Co., Ltd., against company on appeal from U. S. District Court of Montana was tried in U. S. Circuit Court of Appeals at San Francisco from March 8 to 11 inclusive. Circuit Court of Appeals reversed decision of lower court in favor of Minerals Separation and case was remanded back to Montana court with instructions to dismiss bill. Later, Circuit Court of Appeals modified order so as to grant Minerals Separation an injunction and accounting against Butte operations of latter company covering use of one-half of 1% or less of oil up to and including January 7, 1917.

CERRO DE PASCO—June Production—Production for June was 2,937 tons, or 5,874,000 lbs. as compared with 6,166,000 lbs. in May; 5,952,000 lbs. in April; 1,966,000 lbs. in March; 5,332,000 lbs. in February, and 6,798,000 lbs. in January.

CORBIN COPPER—Financial Statement—Statement, July 1, 1918, showed assets of $833,533; liabilities, $339,468, of which $164,468 is unsecured. Capital stock is $3,750,000.

DAVIS-DALY COPPER — Report — Annual report for fiscal year ended June

30, 1918, showed total production from Colorado mine of 49,429 tons of ore; from Hibernia, 4,827 tons silver-zinc ores, together with 2,474 tons of manganese. Gross earnings were $1,543,623; cost of extraction averaged about $1.50 per ton, or $703,150; cost of reduction, $66,906; machinery expenditures, $28,508; supplies, $363,739; leaving net proceeds of $393,023.

FEDERAL MINING & SMELTING—Earnings—Net earnings in May, 1918, as $134,874, which compared with net earnings of $32,397 in April and $64,840 in March.

GRANBY CONSOLIDATED—Production—Up to beginning of June it had turned out 40,290,047 pounds of copper, this eleven months' yield comparing with 41,818,568 pounds in preceding twelve months. There will be a falling off in earnings, from $36 per share shown in fiscal year ended June 30, 1917, owing to reduced price of 23½ cents a pound for copper.

GREAT NORTHERN IRON ORE—Receipts—As no distributions were received from proprietary companies in 1917, report for last year issued July 2, 1918, fails to reveal fully real underlying improvement that has taken place in earnings. Report shows receipts of only $90,957, whereas $2,351,366 was distributed to certificate holders. In 1916, trustees received $2,100,000 in dividends from proprietary companies.

INSPIRATION COPPER—Production—Copper yield first half of year was just under 50,000,000 pounds against 67,000,000 pounds in same period of last year and 53,700,000 pounds two years ago. Has been unable to get sufficient men to keep mine and mill in operation. When running at full capacity a year ago Inspiration set up production record of 11,900,000 pounds in May.

MIAMI COPPER—Production—Production reported in June, 1918, as 4,692,554 lbs. of copper, compared with 5,100,408 lbs. previous month and 5,349,000 lbs. in June, 1917.

MOTHER LODE—Stock Issuance Approved—Capital Issues Committee has approved issuance of 2,500,000 shares, of no par value, of which 1,225,000 shares will be used to acquire Mother Lode Copper Mines Co. of Alaska. Trustees of last named company ratified proposals May 10 and 80% of stockholders have approved plan. Special meeting which had been called for July 1, in Seattle, Wash., to formally approve proposal was adjourned to July 15.

NIPISSING MINES — Report — Statement just issued of current assets, as of June 20, and shows cash in bank, Canadian and United States war bonds, value of bullion in transit, value of ore on hand and in process, and bullion ready for shipment amounting to $3,472,021. This compares with corresponding total of $3,065, as of April 1. Last year company officially reported net earnings of $2,686,471.82, or $2.24 a share compared with $2,028,865, or $1.69 in 1916. Reports indicate company is not only maintaining but increasing production over last year's output, and this fact, together with increased price obtainable for white metal gives strength to report that profits will be above 1917 showing. Last year Nipissing sold product at 83.19c an ounce at Cobalt. Silver was produced for 25.117c an oz., only about 1c an oz. higher than in 1916, and this year with price $1 an oz. it is said that costs are but little above 1916 average.

OJIBWAY MINING — Assessment — Stockholders have been notified that board of directors passed a resolution calling for an assessment of 50c a share on stock, payable on or before August 1. No transfer of stock will be made after that date unless certificates show $15.50 paid in. Proceeds from assessment will be used to provide funds for balance of payments on additional mineral lands, purchased last year and for future expenses during shutdown period. Operations at property have not yet been resumed.

STANDARD SILVER-LEAD—April Operating Results — April receipts were $22,853; disbursements, $25,545; operating loss, $2,692; other disbursements, $3,883; actual operating loss, $6,575; home office account, $435; net loss, $7,018; balance, April 1, 1918, $200,257; balance, April 30, 1918, $193,247.

UNITED STATES SMELTING—Earned $4.58 a Share—The earnings in first half of 1918 will show approximately $2,458,839 (with June earnings estimated) after creating reserves amounting to $896,447 for depreciation, depletion, exploration and federal taxes for period. These earnings are at rate of 7% per annum on preferred stock plus $4.50 per share for six months on common stock. In Mexico, during first half of year, operations have continued with practically no interruptions, and with gradually increasing output, average for six months being 56,500 tons monthly, compared with 54,600 tons for last six months of last year. Output of coal for first half of 1918, June estimated, will show approximately 636,000 tons, an increase over corresponding period for year 1917 of 176,000 tons, or 38%. This increase has been brought about by better transportation facilities which commenced with operation by Utah Railway of own road on December 1, 1917.

UNLISTED SECURITIES

Borden's Capitalization Versus Earnings

Relatively Small Ratio of Profits—The Big End of the Business—A War and Peace Stock—Investment Prospect

By LAURENCE SMITH

WHEN we have thought of Borden's, our minds have centered upon white delivery wagons distributing milk and cream. We have thought of the increased cost of labor and of horse feed, if we have brought our ideas to a market basis, and considered that these times look bad for the milk companies.

It's pretty hard to advance milk and cream prices. A raise in milk is one that hits the poorer people hardest, and they vote. Moreover, when the price is raised the demand automatically drops, while distributing and overhead charges go along about the same. Besides, competition is very keen, as every housewife will tell you, and only recently one of the largest distributers in New York was forced to quit. Of course, the elimination of that competition left easier the going for the survivors, but the margin of profit on milk and cream still approaches the vanishing point.

Borden's has never engaged in the actual production of milk except of the certified quality, and if there is one unprofitable commodity it is certified milk, according to all authorities—the cost is too high.

Early in the spring of this year Borden's incorporated the Borden's Farm Products Company to handle certified and commercial milk, cream, eggs and other farm products. All the stock is owned by the original Borden corporation and the object of the new company was simply to separate the major lines of activity. Fluid milk is distributed only in a few places: New York, Chicago, Albany, Troy, Rochester, Buffalo, Utica, Syracuse and Schenectady, with 84 city delivery branches. As a matter of fact the fluid milk business is a comparatively new one for the Borden organization, being started in 1884, and I'm inclined to think that the Borden people would be rather happy to have the business taken away if they could but get back the huge amount of capital invested.

During the course of an investigation into milk prices in the summer of 1916 the company stated that the fiscal year ended June 30, 1916, showed a net profit of about ¼c per quart of milk or 3½ per cent of the total sales in the eastern district. We are used to large aggregate gains from large sales and small profits, but Borden's claimed that it made only 5.15 per cent that year on the tangible direct investment in the fluid milk and cream business. Aided by a developing popular common sense, the exorbitant distributing costs may finally be decreased by a permitted merger of the competing corporations.

Condensed Milk the Important Product

However, the big profitable end of Borden's can be taken from the official designation—Borden's Condensed Milk Company. The condensed milk business was established in 1857 by the originator of the process, Gail Borden, and incorporated as the New York Condensed Milk Company, succeeded by the present New Jersey corporation in 1889. The company produces condensed and evaporated milk, malted milk, milk chocolate, and confectionery. Over 40 factories are required. The products are shipped all over the world. The further from the source of raw milk a white man gets, the harder he tries to keep himself supplied with condensed or evaporated milk. Yet perhaps the best normal market for evaporated milk is right here in New York, where it supplements in nearly every household the bottles of high-priced milk and cream.

The great market for condensed milk at the present time is in cantonments, other training camps, the navy, the mercantile marine, and in France. The exports tell the story of overseas markets. In millions of pounds the shipments abroad for the last four fiscal Government years have been 37, 160, 260 and 600. The value of the con-

densed milk shipped abroad in the year ended June 30, 1918, was approximately $70,000,000, a figure greater than the value of all the condensed milk produced in the entire United States in 1914, the latest census year.

The demand is almost beyond the capacity of the producers, and Borden's is unquestionably the largest manufacturer. There are three or four large prosperous rival concerns, but there is plenty of room for all.

One of Borden's competitors recently stated that the present price of evaporated and condensed milk wasn't quite reasonable —that really the price was higher than the producers wished, but that the price had been advanced to discourage unnecessary buying for civilian use in this country. At least that is what I took from his remarks. He may have an opportunity to explain exactly what he meant to a committee of Congress, as a call has just been made for an investigation into condensed milk prices. Anyhow, Borden's is certainly a war stock, but this fact has not been reflected either in the price of the company's securities or in dividends disbursed.

Change in Management

Last fall there was a decided change in the directorate of Borden's Condensed Milk. Mr. Theodore F. Marseles, vice-president and general manager of the National Cloak and Suit Company, and John J. Mitchell, president of the Illinois Trust and Savings Bank, took places on the board. Important changes in the operating personnel were announced. It is certainly to be hoped that the new management will take sooner or later a more advanced stand for publicity toward the rank and file of the stockholders than did the old. A "closed corporation" attitude is not quite fair in the case of securities which are among the most active of the "outside" list.

The company is capitalized with $7,500,000 of 6 per cent cumulative $100 par preferred stock, all outstanding and subject to call at 110, together with an authorization of $22,500,000 common stock of $100 par, with $21,312,600 of the common out. The company has no funded debt.

The preferred stock dividends are fully paid to date. Dividends on the common began in 1902 at 8 per cent, and it has been an 8 per cent stock since. In 1903 a 1½ per cent extra was paid, and in 1905, 1906 and 1907 2 per cent extra dividends were disbursed.

Before the war started in 1914 the preferred stock sold regularly between 106 and 108, rather close to the call price, you will notice. The common went about at around 115. Prices held remarkably steady over a series of years. Only a year ago the preferred sold at 103 and the common about a point higher. By now, however, the prices have had to reflect somewhat the increased cost of money, the preferred selling at about 92 and the common at 94.

As to actual earnings or the financial position of the company, about the best information is a by no means new statement from a junior official to the effect that tangible assets amounted to more than the total capital stock and that earnings had sufficed to pay dividends and to provide for necessary reserves and the addition of "goodly amounts to surplus."

My own idea is that the management considers that it minimizes political attacks by keeping the exact figures secret. Perhaps the Federal Trade Commission may give us plenty of figures if the proposed investigation of Congress really starts into action.

Outlook for Stocks

The stocks are prime favorites with conservative investors. In all probability they are as good as the investing public believe them to be, and it is my belief that the common is rather cheap as a war speculation. The preferred has consistently sold too high to the outsider who has to take as proofs of security simply a record of past performance. Yet I wouldn't be at all surprised if, when the end of the war is within discounting distance, Borden's preferred moved up to around 108, and the common back at least to its old position around 115.

The common should prove a good peace stock. It is generally believed that one of the direct results of the war will be the settlement of vast undeveloped areas in the irrigable sections of this country, and in Canada.

Those who have lived in any frontier district know that Borden's condensed milk will go right along with any such development.

Penn. Coal and Coke's Altered Status

Its Reassuring 1917 Operations and Earnings—Will This Battle-Scarred Corporation "Come Through"?

By BERT L. GOODRICH

THE report of the Pennsylvania Coal and Coke Corporation for the year ended December 31, 1917, must have given President T. H. Watkins some satisfaction and the patient stockholders a thrill of anticipation when they learned that at last daylight had arrived, after 16 years of darkness.

The pall of gloom has hung heavily over the affairs of the corporation since 1902, and a close study of the report reveals the effect of war on corporations which produce war's essentials. A year of war-production at war-time prices has been responsible for placing the corporation on its feet after many years of discouraging failure that not even a fresh start could entirely eradicate.

The Trials of a Young Veteran

The Pennsylvania Coal & Coke Corporation is only seven years old, but succeeds the Pennsylvania Coal & Coke Company, established in 1902, and is a seasoned veteran in experience.

The Pennsylvania Coal & Coke Company, founded in Pennsylvania in 1902, owned or controlled about 117,000 acres of coal and surface lands, and in its time was one of the leading producers of soft coal and coke in the bituminous fields of the East. It never was a commercial success, and after defaulting interest on one of its very numerous bond issues in 1908 the end came in 1911, after lawsuits and foreclosure proceedings. The reasons were very apparent, *after the event*—heavy capitalization, too much financing, a cheap price for coal and high cost of production.

Bearing in mind that the total capitalization is $7,500,000 and no bonds of importance, the following details of capitalization of the predecessor company make an interesting comparison:

Preferred stock	$4,387,000
Common stock	4,020,000
Underlying bonds	6,771,000
Car trust certificates	186,718
Purchase money obligations	27,690
Consolidated 5% bonds	5,854,500

By April, 1910, these figures had expanded to around $32,500,000 in outstanding stock and bonds, and in the year following foreclosure proceedings ended the career of the first company, and the hopes of its stockholders.

Bondholders to the Rescue

The present corporation was formed as a result of the combined efforts of President Watkins in his then capacity as receiver, and a committee representing the holders of the above-described consolidated 5 per cent bonds. The Pennsylvania Coal & Coke Corporation which came into existence in November, 1911, was originally an aggregation of about 500 holders of the consolidated bonds. Under the plan of reorganization its 150,000 shares of $50 par value were distributed proportionally among the bondholders in exchange for their bonds, and an assessment was paid by them equivalent to 12½ per cent of their holdings to provide working capital. This arrangement gave each $1,000 bondholder 20 shares in the present corporation. A further two and a half shares was issued in exchange for the $125 assessment. The old stockholders lost their money.

With capitalization reduced from about $32,500,000 to $7,500,000 the new Pennsylvania Coal Corporation started in business November, 1911, without debt, and well over $1,000,000 in working capital derived from the assessment on bondholders.

The coal holdings of the old company were sold under foreclosure, bought in by the bondholders' protective committee and resold to the Clearfield Bituminous Corporation—a subsidiary of the New York Central Railroad. The reorganized Pennsylvania Coal Corporation then obtained a favorable lease of 47,000 acres of land in fee, and the coal underlying 12,000 acres of leasehold upon a rental basis and royalties. The lease included buildings, railways and equipment and the right to certain revenues from subsidiaries of the defunct Pennsyl-

vania Coal Company. Considerable changes have taken place in the original terms of the lease involving a reduction of holdings, revenues and rentals, while on the other hand other important holdings have been acquired independently during the past three years.

War-Time Changes

In spite of the fact that all the water had been squeezed out of the corporation in 1911 there was little to show for all the tribulations of reorganization during the years that immediately followed. In 1914 gross sales of $2,901,665 were produced at an operating expense of $2,861,457, and after numerous necessary deductions a loss of $10,817 was sustained.

In 1915 the figures of gross sales and operating expenses were a duplication of the preceding year, but on bookkeeping alone—that is, smaller depreciation reserves being made, the insignificant surplus of $80,139 was carried forward to the following year.

In 1916 the position showed a decided improvement, with gross sales amounting to $4,447,953, operating expenses $4,266,277, and a surplus of $156,736, or nearly double the 1916 figures.

This improvement was accomplished without any great increase in output of coal mined; actual tonnage figures being:

	Gross Tons
1914	2,291,495
1915	2,367,737
1916	2,891,573
1917	2,940,000

—a fact which furnishes the clue to the present improved situation. The corporation was commencing to feel the effect of improved methods of mining, economy in operation, and more important than all other factors—a price for its output.

With our entrance into the war the position of individuals and corporations able to produce and deliver war's essentials has undergone a complete change for the better, as every one knows. This is no less true of the soft coal and coke producers than of the producers of hard coal, oil, copper, silver and the other base and precious metals or minerals. "Everything is up," as the housewife and jeweler will tell you, from lordly platinum to plain homely coal, and in many cases to the extent of hundreds per cent.

The rise in the price of soft coal, so far as our struggling corporation is concerned, is illustrated in the following approximate selling figures:

	Per net ton
1914	$1.24
1915	1.25
1916	1.29
1917	2.95

The last figure of $2.95 was fixed after investigation by the Federal Trade Commission and the Fuel Administration in February, 1917. It was arrived at by computing the actual mining cost plus *a just profit* at $2.50, with 45 cents added for wage increases. The "just profit" was the profit which the President announced in July, 1917, must be allowed for everything the Government buys, necessary for the maintenance and development of essential industries.

The fact that the Pennylvania Coal & Coke Corporation is now earning about 20 per cent on its capitalization of $7,500,000 proves that the fixed price was a very reasonable one, since a good deal of the extra profit will go back into the war chest in liberal taxes, and still leave a fair profit for the use of stockholders.

The new price of $2.95 also demonstrates that the trouble during the past years has been "cheap coal," and that a selling price averaging $1.26 a ton was always the open sesame to the receiver's door.

The Current Situation

We have twice discussed the coal situation in these pages during the past year, and more recently quoted Mr. Floyd Parsons, editor of *Coal Age,* to the following effect: "Coal will never again sell at the low price that prevailed before the war." It is a far cry from $2.95 down to $1.25, and although a substantial reduction may come with lower wages, improved transportation and cheaper methods of mining, we cannot visualize anything near the former low levels. Experienced coal men, with whom the writer has discussed the situation, do not look for lower prices in the near future nor do they anticipate disturbing elements in the situation. The high cost of living, in which soft coal plays an important role, is evidently a comparative fixture with little relief in sight.

The present war situation is well reflected

in the 1917 report of the corporation. Although handicapped by the rigors of the severe winter of last year, restricted tonnage due to a shortage of cars and discrimination through priority orders of the Fuel Administration, the corporation earned $1,553,919 for the year after liberal deductions equivalent to 20 per cent, or $10 a share. The actual net earnings were $2,223,570 for the corporation and $60,661 for its subsidiaries, making a total of $2,284,232. Deductions of $730,313 included items of $445,195 for taxes, $270,117 for amortization and $15,000 for Red Cross and Y. M. C. A. subscriptions. Taking into consideration the fact that the production was only net 3,288,440 tons, and that liberal expenditures went into permanent improvements, the showing is very satisfactory.

If the corporation duplicates the 1917 showing in the current year, shareholders will have sufficient proof to feel that their corporation has definitely "turned the corner."

The balance sheet demonstrates the absence of "water" in the stock, or any desire on the part of directors to make a brilliant showing—in appearance. The corporation lease, appraised at $7,500,000, on a parity with capitalization, is doubtless worth that price now on its earning power. Current assets total $2,507,875, of which well over $1,000,000 is in cash and Liberty Bonds. Current liabilities total $1,024,984, of which 47 per cent is a bookkeeping item "reserve for casualties $481,181," and $372,303 represents a mortgage. The surplus now stands at $1,481,401, or nearly $10 a share, compared with $934,528 a year ago, and this surplus is arrived at after setting up a reserve of $1,067,730 for amortization. All the figures we have seen in the detailed analysis of balance-sheet and income account show a conservative regard for future contingencies, and a desire to place the corporation in a "water-tight" position in the future.

The current regular dividend of 75 cents a share quarterly with periodical extra distributions seems somewhat generous at first sight, but we learn on good authority that officers of the corporation are satisfied that earnings are now tending and will continue upward, and that the dividend disbursement will cause no embarrassment. Stockholders who were formerly bondholders have waited long enough for some return on their investment and this is apparently recognized.

The Prospects

We conclude that although the corporation is war-prosperous, Penn. Coal & Coke is probably in a position to benefit permanently from the fresh impetus gained, even if war-prosperity should ultimately prove to be a transient phase in its career. Owning or leasing 37 collieries in six districts, the corporation is meeting the conditions imposed by the Fuel Administration in sparing no effort to increase production, in consideration of an adequate fixed price for its goods. The Government as well as the corporation is benefiting, and will continue to do so, in our judgment, during the war and for some time after. Meanwhile, substantial equities are being placed behind the shares, which are maturing as an investment.

The management is able and careful, its president has weathered the corporation storms for 16 years, and its officers enjoy the confidence of stockholders, who are not offering their shares for sale at 32. As a close corporation new investors are unlikely to get quick action marketwise since no attempt has yet been made to "create a market," but a sudden change for the better might occur in any buoyant market which looks for specialties.

The shares appear attractive for speculative investment and will bear watching.

"AMONG THOSE PRESENT"

J. Arthur Joseph says: "When the peace terms are finally decided, the Kaiser will be like a man at his own funeral—he will be among the guests, but will have nothing to say."

Unlisted Security Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

AETNA EXPLOSIVES—Plan to End Receivership—Plan will be announced within a short time whereby this company can be taken out of receivership. The plan outlined early in June, has been modified that no liberal sinking funds will be provided for Aetna's bonds or preferred stock. The purpose of modification is to give company all funds possible, with which to convert Aetna from war to a peace proposition.

CANADIAN WESTERN LUMBER—April Output and Sales Decrease—Output and sales of this company, both showed considerable decrease during month of April, lumber manufactured being less by 163,000 ft. and lumber sold by 1,894,000 ft. Higher prices realized are indicated in the fact that income of $257,899 increased $50,636. For four months of year lumber manufactured increased by 1,219,000 ft., and lumber sold less by 2,880,000 ft. Income, $251,264.

DRAPER CORPORATION—No Extra Dividends—Has all the business it can handle for next 12 months. Its immense machine shop facilities are being devoted to government account in large manner. Northrop looms are generally regarded as indispensable to quick and efficient production. Though earnings of Draper are quite satisfactory, there is no likelihood of extra distributions while the war lasts. Company intends to maintain its liquid position in order to be ready at all times to support to limit of its ability recurring calls for funds by government.

FORD MOTOR—Large War Orders—Company continues to turn out passenger cars at rate of about 1,600 a day. This represents about 50% of output at start of 1918. For fiscal year ending July 31, Ford expects to show output of about 700,000 cars. The best opinion on the magnitude of Ford war orders up to June 15 is that they exceed $350,000,000.

FEDERAL SHIPBUILDING—Building Shipways—Two additional shipways are being constructed at Kearney plant, making twelve in all. Expected that twenty boats will be launched from these yards this year, ten of which will be fully equipped and ready for sea service in November or December. American Bridge Co., which has been fabricating all of steel for these boats, as well as for permanent plant on the Hackensack River, has received additional orders for fabrication from Emergency Fleet Corporation, making a total of 250,000 tons it will furnish to various yards engaged on Government work.

HALIFAX SHIPBUILDING—Start Work on New Plant—Work of establishing big steel shipbuilding plant at Halifax has been begun, and within three months the keels of the three ten thousand ton freighters—the largest ever built in Canada—will have been laid on building berths. Expenditure for the shipbuilding plant will be between $2,750,000 and $4,000,000.

LIMA LOCOMOTIVE—Increasing Facilities for Locomotives—Is gradually increasing its facilities in turning out locomotives. Booked to supply 45 locomotives to Railroad Administration. Prior to taking of this contract, the company was booked to middle of 1919. It has been adding constantly to plant facilities, with intention of bringing annual capacity up to 1,500 locomotives. The shares in 1917, before company had arrived at its present prosperous condition, sold as high $63.37½.

NOVA SCOTIA STEEL—Good Forward Bookings—Has sufficient orders on books to keep plants running at capacity for rest of year. Most of business represents government requirements for war purposes. Practically none of war orders placed by Dominion government has been on a cost-plus basis. Orders were placed at fixed prices with guarantees on part of government in respect to labor costs. Earnings of Nova Scotia Co. for current year may run close to $15 per share.

WRIGHT-MARTIN—Large Business—Is turning out aeroplane motors at rate of twenty-five a day. This is an increase of five a day over production a month ago. Company is manufacturing Hispano-Suiza motors. Business of Wright-Martin is running at rate of between $40,000,000 and $50,000,000 annually. War Department is desirous that business be brought up to $100,000,000 annually. Plans are under consideration for starting of dividends on preferred stock. Present earnings appear to warrant payments to preferred shareholders. On November 1 next, 14% will be accrued on the preferred stock, of which $5,000,000 is outstanding.

WRIGHT WIRE—Note Offering—Company's issue of $1,000,000 7% serial coupon gold notes, maturing annually from April 1, 1919, to April 1, 1923, are being offered by Liggett & Drexel, bankers, at prices to yield from 7⅝% to 8%. Redeemable at option of company on any interest date upon thirty days notice, at prices equal to ½ of 1% premium for each year notes have to run. Company's net quick assets are over $1,600,000, or in excess of one and one-half times note issue; while net earnings are over seven times annual interest requirements of issue. Property is free of debt and cannot be mortgaged during the life of bonds.

TOPICS FOR TRADERS

Right and Wrong Methods in Investment and Speculation

XVII—Putting Securities Away and Forgetting Them

By RICHARD D. WYCKOFF

WE often hear people say: "If that security ever gets down to my price again I'll buy some, put it away and forget it."

Many a man has lost a fortune by this process.

You don't forget any other kind of property which you buy. If you own real estate you are always looking at the transfers of property in that vicinity and watching the general trend of real estate values. If you buy other forms of property, whether productive or non-productive of income, you are sure to keep an eye on it. Why, therefore, should you forget that you have a certain lot of stocks or bonds?

If you were to follow out the above rule you make up your mind way in advance that the security will be a good purchase when it reaches a certain price. All changes in intrinsic value or earning power which may take place in the meantime you decide in advance to disregard. You ignore the possibility that the shrinkage in value may be far greater than the shrinkage in price, as represented by the lower figure.

But as for this "forgetting" what you have bought and paid for, there is absolutely no truth in it. The first thing you do when you get your evening paper is to open it at the financial page and see just what that stock you have "forgotten" is selling at. If it shows a loss you are not in quite so much of a hurry, but if it is going up you are in a big hurry to see the latest quotation, and "how high it sold today."

In many cases these securities which you say you will forget, worry the life out of you, and through many long months, and years, perhaps, you keep telling yourself what a fool you were for buying that stock. You may not have been such a fool in buying it, but it was very foolish to make the purchase on the basis of reduced price only, and not take into consideration the changed conditions which, in spite of your earlier resolution, might make the purchase a mere flirtation with disaster.

If you only knew it, there is at all times one particular stock or bond that is best suited to your individual requirements, and which promises the most satisfactory interest return and enhancement of principal. If you were all-wise you could put your finger on it. Now if you cannot do this at the present moment it proves that you are not all-wise—and if you are not the essence of wisdom now, how can you expect to look ahead several months and pick out this "best" stock? The one you intend to buy and forget, may be the worst for your purpose.

It must be perfectly clear, therefore, that decisions of this sort are based on the wildest kind of guesses.

But leaving aside all those arguments, just consider what a bad principle it would be if you did fool yourself in some way and forget what you had bought. You would never read anything about it, even though an item were thrust upon you, because you would have forgotten all about it. You would not know whether the company had paid a dividend or had called an assessment. No one ever does this sort of thing in real life, unless he actually has forgotten that he made the purchase, or is under a false impression that he has sold out. Admit that this seldom happens to you or anyone else.

If you have so many different kinds of securities so that you can't watch them properly, better sell some so you can watch the rest, because whatever you own is either getting better or worse every day and it is your business to know which—otherwise you

should put your money in a savings bank.

If, having watched the developments in a certain company whose securities you own, you find that its affairs are on the down-grade, you should sell it out, whether you have a profit or a loss. If it is getting better, hold on, or preferably, buy more.

I once knew a man who bought Union Pacific at 160 and carried it all the way down to 2. To be sure, he paid the assessment, and eventually got more than his money back, but how much money, plus worry, he could have saved, had he noted the continual deterioration in the property and sold out before the receivership came. If he had even sold out at 80 he would have had $8,000 more with which to buy the stock at the low levels and would have been many times better off when it recovered to his original buying price.

This is the formula:

First, provide yourself with the necessary capital with which to buy. If you intend to buy on margin do not employ any money which you cannot afford to lose without crippling you. In this way you will avoid worry and your judgment will be better.

Next decide when it is time to buy. If you have not had long experience in such matters be sure to get in touch with those who are really capable of judging for you.

Then decide which of all the hundreds of listed securities you had better buy, and unless you are an expert on technical market conditions, do this on the basis of intrinsic value and earning power.

After you have bought never forget it for a moment. Watch it as you would a growing child.

Even though it is bought and paid for and "safely" tucked away in your safe deposit box it can fluctuate just like all its little brother and sister shares of the same breed. Your holding it won't stop it from going down.

Another point: Because you are long of it don't think you should continue to stay long. There may be a hundred reasons for selling. Hope is all right in its place, but sound judgment is the thing to use in deciding whether to hold on or not.

Hope lulls you into a false sense of security and before you know it you may be sewed up for a couple of years and may eventually face a loss anyhow.

In a word, if you are thinking of "putting it away and forgetting it," better alter your plan and forget to buy it. Otherwise you may have some ugly reminders of your forgetfulness.

(Series to be continued.)

Some Odd Trading Methods

Will-o-The-Wisps Vainly Followed by Those in Quest of Easy Money

By "OLD TIMER"

MANY and various are the methods employed by traders in the stock and commodity markets. Some of these trading ideas seem to be successful, but in the majority of cases no sane reason can be given for their use. In the course of twenty years' experience in Wall Street I have run across some very strange devices for playing the game. Several years ago, when Union Pacific was the leader of the market, a man came to me and in great earnestness divulged his infallible method. Boiled down, his plan was to watch the tape transactions in U. P. for the first fifteen minutes after the opening. In that time if a single thousand share transaction was reported on the tape, at a fraction up from the opening price, his plan was to buy; if down, he sold. How long this particular method proved successful I do not know, as the originator of it disappeared after six months or so.

Then along came a man who operated on errors on the tape. For instance, if a certain stock was normally quoted around 40 and the tape gave a sale at 49, his idea was

to purchase that particular stock, even if the error was corrected before his order was executed. This type of trader belonged to the "hunch" variety. There are many of them, as any one who is familiar with office habitues will vouch for.

Trading by the Clock

Another variety of the "crank" trader is the fellow who buys or sells by the clock. There are all sorts and kinds of this variety. Some maintain that if the market is up on average from the opening figures at 11:10 a. m. it will react and be a purchase at 1:30 p. m., and that the close will be strong. Another whom I met held that prices, as a rule, will be the same at the close as they were at 1:30 p. m. Some who are advocates of this idea even go to the trouble of striking an average of 20 to 25 stocks in order to prove the accuracy of their idea.

One man who religiously kept a record of the averages of 20 active stocks told me one day that from the record of the averages he calculated that the market indicated a possible advance of approximately 20 points. In due time his forecast came true. But he made the vital error of buying the one stock among the 20 used in making up his averages which failed to advance. Unfortunately, the trend in the stock which he bought developed a decided reactionary tendency in spite of the fact that the average market advanced. Finally, he closed his transaction with a loss of more than 10 points.

Another trader kept an average of 10 rails, also an average of 10 industrials. He swore by the indications taken from an intensive study of both of these averages. Once I asked him if he traded in 10 or 20 stocks at a time, and he said, "Of course not—I seldom trade in more than one or two stocks at a time." I asked him what his favorite trading stock was. He said, "Anaconda," and that he could forecast its movements almost to the exact eighth. Smilingly I inquired why he did not watch Anaconda alone and forget the averages, saving himself so much unprofitable labor. His answer is not fit to print.

Making So Much Each Week

While in Chicago I once met a wheat trader who was very successful as traders go. His method was to start each Saturday with a put and call for Monday. His aim was to make a certain stipulated amount by the following Saturday. Once he reached his objective for the week, his practice was to stop trading and to await the beginning of the following week. For all I know he may be "getting by" with his plan yet. His plan had one factor in its favor at least. He was not greedy and did not attempt, with his very limited capital, to get all of the money that passed through the Board of Trade.

To get back to the Stock Market. I once knew a trader whose aim was to net a point profit each day in United States Steel. He never carried anything over night. For six months or so I kept in rather close touch with his operations, and in that period he did very little better than break even. His plan wisely limited losses closely, but the stringent rule of closing each transaction before the close of trading each day apparently worked against him. He was unable to overcome, in spite of no little technical skill, the big percentage against him in the broker's commissions and the well known "invisible eighth."

The "Eighth Up" Theory

What trader who has had any considerable office experience but has come in contact with the theory that every transaction at an-eighth or more higher than the previous one should be designated as a "buy," and every transaction at an-eighth lower as a "sale"? One New York broker some time ago went so far as to provide a blackboard upon which was recorded each successive tranaction in U. S. Steel. The transactions at an eighth higher were tabulated on one side, and those at an eighth lower were tabulated on the other side. The relation of the two sides, i. e., "buying" and "selling," was constantly shown by frequent additions of the two columns. When the buying side showed a preponderance it was assumed that the buying was better than the selling in Steel, and traders were encouraged to take a long position and vice versa. How enduringly successful this method proved to be may be ascertained from the fact that the broker who provided these facilities for trading has long since closed his doors. Had the plan proved feasible his business would have grown by leaps and bounds, and he would probably

have the largest house on the Street today, as Steel is the great public trading favorite.

The Great Automotic Recorder

There is no end to the fertility of the brains of cranks who "discover" from time to time ideas which purport to make millions for those who use them in Wall Street. One fellow went so far as to invent a machine which automatically indicated the proper trading position to take on any stock. It was so arranged that every transaction in the stock used was to be registered on the machine, which, by the way, looked very much like the ordinary retail store cash register, and after a number of transactions had been so recorded, the machine would flash a signal which read "buy" or "sell," as the case might be. Eventually a considerable number of people became interested in the mechanical proposition, and a pool was formed to operate it. The last I heard of this famous machine was that a junk dealer in John street bought it for something less than a song. Whatever became of the inventor I do not know, but he is probably working on a model of a machine to develop perpetual motion. Beating the stock market by automatic trading and discovering perpetual motion, both belong in the same category—"they can't be did."

Another favorite theory among confirmed tape followers is that of the "gap." If, in the course of a stock's price movement, it should move abruptly from one quotation to another, leaving a gap of a point or more between sales, no matter where the stock eventually goes, the supposition of those who believe in the "gap" theory is that finally the stock will come back and fill up the gap. For instance, if Steel were currently quoted at 110 to 112 and one day it opened up at 114 and advanced to 116 or 117, the follower of the gap theory would expect Steel to come back and move over the untouched territory between 112 and 114. He would consider Steel a short sale on whatever rise it made, and would probably be willing to buy it as soon as it touched the lower extremity of the gap, 112. Like all other fads and fancies pertaining to stock movements the gap idea very often works out. Just as often, perhaps, it fails. Like the man with one idea in any line, the trader who pins his faith on this factor alone in trading is certain to come to grief.

Getting on Both Sides at Once

When the average man begins to dabble in stocks he is naturally a bull. He continues to buy stocks until finally the market turns and smites him, and after a more or less painful experience he discovers that there is another side to the market. He becomes a bear and then makes the Great Discovery. Not all traders, of course, fall for this idea, but I know a number who did. Two accounts are usually opened with the broker—a No. 1 and a No. 2 account. In the one account a certain stock is purchased and at the same time in the account the same stock is sold short. If the stock selected goes up, the trader sells his long stock, taking his profit after a short advance, with the idea of covering the short stock on a reaction. If the stock goes down first the reverse idea is followed. The only trouble with this method is that, unfortunately, after a small advance and profit on the long stock is taken, for some contrary reason or other the stock very often fails to decline, giving the operator of this brilliant idea no opportunity to cover to advantage. The same may be said for the other side.

Traders Who Really Succeed

The one thing which my whole experience seems to bear out is the fact that trading in stocks requires nothing so much as a high degree of sanity and common sense. Freak ideas are seldom permanently successful in commercial undertakings. I have never met one freak trader who made a success at trading in stocks.

Broadly speaking, the only traders whom I have met that have achieved a real success in the market belong to the class of men who would have been successful in any other legitimate line of endeavor. Men who understand the nature of their undertaking, who carefully weigh the possibility of loss against the probability of gain and who make it a rule to limit losses by the use of judicious stop orders, are the only ones, as far as I know, who have gained a permanent success. I know a number of this class of traders, and keener-minded men are not to be found anywhere. There are none of the "sure-thing-method" men among them.

IMPORTANT DIVIDEND ANNOUNCEMENTS

To Obtain a Dividend Directly from a Company the Stock Must Be Transferred into the Owner's Name Before the Date of the Closing of the Company's Books.

Ann. Rate	Name	Last Div'd	Books Close	Payable
	A			
$3	Amer Gas & Elec p..	75c. Q	*July 15	Aug. 1
5%	Amer Ice p..........	1¼% Q	*July 15	July 25
6%	Amer Light & Trac p	1½% Q	July 11	Aug. 1
10%	Amer Light & Trac c	2½% Q	July 11	Aug. 1
....	Amer Lt & Trac c x..	e2½%	July 11	Aug. 1
7%	Amer Linseed p.....	1¾% Q	*Sept. 14	Oct. 1
7%	Amer Locomotive p..	1¾% Q	*July 5	July 22
6%	Amer Malting 1 p...	1½% Q	*July 15	Aug. 1
6%	Amer Malting 2 p...	1½% Q	*July 15	Aug. 1
7%	Amer Shipbuilding p.	1¾% Q	*July 15	Aug. 1
7%	Amer Shipbuilding c..	1¾% Q	*July 15	Aug. 1
....	Amer Shipbldg c x..	xx5 %	*July 15	Aug. 1
7%	Amer Sugar Refin p.	1¾% Q	*Sept. 3	Oct. 2
7%	Amer Sugar Refin c.	1¾% Q	*Sept. 3	Oct. 2
....	Amer Sugar Refin c x.	¾%	*Sept. 3	Oct. 2
7%	Amer Sumatra Tob p.	3½% S	*Aug. 15	Sept. 1
$8	Anaconda Copper	$2 Q	*July 20	Aug. 26
5%	Atch, Top & San Fe p.	2½% S	*June 27	Aug. 1
6%	Atch. T & San Fe c.	1½% Q	*Aug. 9	Sept. 3
$10	Atl Gulf & W I S S c.	$5 S	*June 28	Aug. 1
6%	Atlas Powder p.....	1½% Q	July 20	Aug. 1
	B			
8%	Beth Steel 8% p....	2 % Q	*Sept. 16	Oct. 1
7%	Beth Steel, 7% p...	1¾% Q	*Sept. 16	Oct. 1
$20	Borne-Scrymser & Co.	$20 A	Sept. 15	Oct. 15
7%	Brown Shoe p.......	1¾% Q	*July 20	Aug. 1
7%	Burns Bros. Ice 1 p..	1¾% Q	*July 15	Aug. 1
....	Burns Bros Ice 1 p m	3½%	*July 15	Aug. 1
	C			
5%	Central Leather c..	1¼% Q	*July 10	Aug. 1
8%	Central RR of N.J..	2 % Q	*July 19	Aug. 1
12%	Chevrolet Motor	3 % Q	*July 15	Aug. 1
6%	Chi Pneumatic Tool.	1½% Q	*July 15	July 25
6%	Cities Service p.....	½% M	*July 15	Aug. 1
6%	Cities Service c.....	½% M	*July 15	Aug. 1
....	Cities Service c x....	e¾%	*July 15	Aug. 1
5%	C. C. C. & St. L p..	1¼% Q	*June 28	July 20
6%	Cluett, Peabody c...	1½% Q	*July 20	Aug. 1
8%	Colo Fuel & Iron p..	2 % Q	*July 5	July 25
$3	Colo Fuel & Iron c..	75c. Q	*July 5	July 25
8%	Com'wealth Edison...	2 % Q	*July 15	Aug. 1
....	Cosden & Co c.......	e2½%	*July 15	Aug. 1
....	Cramp (Wm.) & Son	3 %	July 20	Aug. 1
....	Crucible Steel p.....	m2 % S	*Aug. 16	Aug. 31
6%	Cuba RR p.........	d3 % S	*June 29	Aug. 1
7%	Curtiss Aero & Mot p	3½% S	*July 2	July 15
	D			
6%	duP deN & Co deb stk	1½% Q	*July 10	July 25
5%	duP deN & Co Powd p	1¼% Q	*July 20	Aug. 1
6%	duP deN & Co Powd c	1½% Q	*July 20	Aug. 1
	E			
....	Eastman Kodak c e.	10 %	*June 29	Aug. 1
$20	Eureka Pipe Line....	$5 Q	*July 15	Aug. 1
	F			
7%	Fisher Body p......	1¾% Q	*July 23	Aug. 1
	G			
8%	Galena Signal Oil p..	2 % Q	*May 31	July 31
12%	Galena Signal Oil, c..	3 % Q	*May 31	July 31
6%	General Motors p...	1½% Q	*July 15	Aug. 1
12%	General Motors c....	3 % Q	*July 15	Aug. 1
6%	Georgia Ry & Pow 1 p	1½% Q	*July 10	July 20
4%	Goodrich (B F) c...	1 % Q	*Aug. 2	Aug. 15
7%	Great Northern Ry..	1¾% Q	*July 3	Aug. 1
7%	Gulf States Steel 1 p	1¾% Q	*Sept. 15	Oct. 1
6%	Gulf States Steel 2 p	1½% Q	*Sept. 15	Oct. 1
	H			
6%	Harb-Walker Refrac p	1½% Q	*July 10	July 20
	I			
$8	Indiana Pipe Line...	$2 Q	*July 20	Aug. 15
6%	Int'l Merc. Marine p.	3 % S	*July 15	Aug. 1
6%	International Nickel p	1½% Q	*July 16	Aug. 1
	K			
5%	Kanawha & Michigan.	1¼% Q	*July 15	July 30
$4	Kelly-Springf Tire c	$1 Q	*July 15	Aug. 1
4%	Kress (S H) & Co c.	a1 % Q	*July 20	Aug. 1

Rate Ann.	Name	Div'd Last	Close Books	Payable
	L			
$4	Lehigh Coal & Nav...	$1 Q	*July 31	Aug. 31
	M			
6%	McElwain (W H) 1 p.	1½% Q	*July 15	Aug. 1
6%	McElwain (W H) 2 p.	1½% Q	*July 15	Aug. 1
6%	McElwain (W H) c..	1½% Q	*July 15	Aug. 1
$4	Miami Copper	$1 Q	*Aug. 1	Aug. 15
4%	Michigan Central ..	2 % S	*June 28	July 29
$6	Midvale Steel & Ord..	$1.50 Q	*July 15	Aug. 1
$4	Midwest Refining....	$1 Q	*July 15	Aug. 1
8%	Mont Lt Ht & Pr...	2 % Q	*July 31	Aug. 15
4%	Mont L H & P Consol	1 % Q	*July 31	Aug. 15
	N			
7%	National Biscuit p..	1¾% Q	*Aug. 17	Aug. 31
7%	Nat'l Enam & St p	1¾% Q	*Sept. 10	Sept. 30
6%	Nat'l Enam & St c	1½% Q	*Aug. 10	Aug. 30
5%	New York Central..	1¼% Q	*July 9	Aug. 1
6%	N Y Ont & West p.	6 % A	....	July 24
$1	North Butte Mining..	25c. Q	*July 12	July 29
7%	Northern Pacific ...	1¾% Q	*July 5	Aug. 1
	P			
$3	Phila Co c..........	75c. Q	*July 1	July 31
5%	Pitts Coal (N J) p.	1¼% Q	*July 10	July 25
6%	Pitts Coal (Pa) p...	1½% Q	*July 10	July 25
$5	Pitts Coal (Pa) c...	$1.25 Q	*July 10	July 25
6%	Pitts & West Va p..	1½% Q	*Aug. 15	Aug. 31
$12	Prairie Oil & Gas....	$3 Q	*June 29	July 31
....	Prairie Oil & Gas x...	$2	*June 29	July 31
20%	Procter & Gamble c..	5 % Q	July 20	Aug. 15
....	Proc & Gamble c x..	e4 %	July 20	Aug. 15
6%	Public Ser of No Ill p	1½% Q	*July 15	Aug. 1
7%	Public Ser of No Ill c	1¾% Q	*July 15	Aug. 1
	Q			
6%	Quaker Oats p......	1½% Q	*Aug. 1	Aug. 31
	R			
$2	Reading Co 1 p....	50c. Q	*Aug. 27	Sept. 12
$4	Reading Co c.......	$1 Q	*July 18	Aug. 8
6%	Republic Iron & Stl c	1½% Q	*July 20	Aug. 1
	S			
4%	Standard Milling c..	1 % Q	*Aug. 21	Aug. 31
....	Standard Milling c x.	e1 %	*Aug. 21	Aug. 31
....	Standard Milling c x	2 %	*July 20	July 31
$8	Superior Steel 1 p..	$2.00 Q	*Aug. 1	Aug. 15
$8	Superior Steel 2 p..	$2.00 Q	*Aug. 1	Aug. 15
6%	Superior Steel c.....	1½% Q	*July 15	Aug. 1
	U			
7%	Underwood Type p..	1¾% Q	*Sept. 16	Oct. 1
6%	Underwood Type c..	1½% Q	*Sept. 16	Oct. 1
6%	Union Oil of Cal....	1½% Q	July 10	July 20
....	Union Oil of Cal x..	1 %	July 10	July 20
7%	United Drug 1 p....	1¾% Q	*July 15	Aug. 1
6%	United Drug 2 p....	1½% Q	*Aug. 15	Sept. 3
7%	United Dyewood p..	1¾% Q	*Sept. 14	Oct. 1
5%	U S Cast Ir P Fdy p	1¼% Q	*Sept. 2	Sept. 14
	V			
4%	Virg-Caro Chem c....	1 % Q	*July 15	Aug. 1
....	Virg-Caro Chem c x.	xx2 %	*Sept. 16	Oct. 1
	W			
6%	Wells Fargo & Co...	1½% Q	June 29	July 20
$7	West'house Air Brake	$1.75 Q	*July 15	July 31
$3.50	W'house El & Mfg c.	87½c. Q	*June 29	July 31
$1	Willys-Overland c....	25c. Q	*July 20	Aug. 1

* Dividend payable to stockholders of record of this date.

x Extra.
a Initial dividend.
d Paid in scrip.
e Paid in common stock.
m Accumulated dividends.
xx Payable in Liberty Loan Bonds.